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Should mutual fund investors look beyond balanced funds after DDT?

BY SHIVANI BAZAZ, ET ONLINE | MAR 16, 2018, 12.08 PM IST

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Mutual fund investors have started moving away from balanced funds as they are spooked by the recent correction in the market and the new dividend distribution tax on equity funds announced by the finance minister in the Budget 2018, say mutual fund advisors.

“A lot of mutual fund investors looked at balanced funds as a good option to opt for regular dividends. The introduction of DDT has hit such investors. The dividends are expected to be lower than usual and with the markets being volatile, they can be infrequent also. This is impacting the balanced funds,” says Vishal Dhawan, Founder, Plan Ahead Wealth Advisors. Dhawan adds that he never encouraged investors to rely on balance fund dividends for their primary income.

According to AMFI data, inflows into balanced funds in February dipped to Rs 5,026 crore, compared to Rs 7,614 crore in January.

Apart from DDT, the market correction and the bond yields are also dampening the investor interest in balanced funds. “The fixed income market is also not doing well. As we see bouts of volatility in the equity market, balanced funds are being hit from both sides. This has lowered their performance in the last couple of years. Unfortunately, investors look at the past returns before choosing schemes,” says Pankaj Gera, a certified financial planner based in Delhi.

Should mutual fund investors look beyond balanced funds after DDT? The answer is no.

“Balanced funds are still a good investment product but not for investors looking for regular payouts,” says Vishal Dhawan. “Dividends in balanced schemes were never a good option. But because the markets were doing great, investors forgot the fundamentals and chased monthly or periodic profits in them,” adds Dhawan.

Pankaj Gera believes that the frequency of dividends might not drop but the amount will totally be hit. “The AMC’s had sold some balanced funds to retirees promising them regular dividends. That is where the problem is. They can’t stop the dividends but the amount that comes to the investor’s hand will be less and the corpus will also not grow,” says Pankaj Gera.

Vishal Dhawan says that investors relying on dividends should not opt balanced funds but pure debt products. “With or without DDT, balanced funds are not suitable for dividend payouts. If you want regular income from mutual funds, opt for pure debt funds or go for an SWP,” advises Vishal Dhawan.

Fundamentally, investors who have a little higher risk taking ability than debt products but not enough to invest in pure equity schemes should invest in balanced funds. “if you have a moderate risk profile and at least five years horizon, balanced funds are still a great option for you,” says Pankaj Gera.

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