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Worried about debt mutual funds? Here are some helpful tips

BY SHIVANI BAZAZ, ET ONLINE | FEB 27, 2019, 09:48 AM IST

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Many mutual fund investors are worried about their investments in debt **mutual funds** as the interest rate and credit **risk** worries gather momentum. Mutual fund advisors say many investors, especially those practicing DIY investing, are asking for help over forums and through calls. "New investors trying to enter the debt segment and investors who manage their portfolios by themselves have started wondering how they can safeguard their debt investments," says Puneet Oberoi, Founder, Excellent **Investment** Advisorz. He adds that, "There are no rules to eliminate the risk but investors can try to minimise risk".



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There are many ways and **ratios** that an investor can employ to understand the risk in their schemes. However, for a lay investor, these things can be quite complicated. Mutual fund advisors say that investors can follow some simple steps to check and minimise the risk in their debt investments. Here are the important points that you should remember if you are debt investors:

Know the categories well: To begin with, know the different categories and the risks involved with them. The bond funds carry the **interest rate risk** and the accrual funds which invest in corporate securities carry the risk of credit defaults by companies. "Avoid credit-risk funds if you don't want risk in your portfolio. If you want to bet on corporate securities and take minimum risk, bet on corporate bond funds," says Vishal Dhawan, Founder, Plan Ahead Wealth Advisors.

Check the factsheet regularly: Mutual fund advisors believe that if you are a DIY investor, the least you should do is keep a check on where your schemes are investing. Fund houses send a factsheet on your registered e-mail id every month. "You should see the changes in the factsheet. Which instruments have been added to the scheme and which have been dropped? Educate yourself if you are doing it yourself," says Vishal Dhawan.

Quality of the portfolio: Higher-rated instruments have lower chances of defaults. Check if your scheme portfolio is betting on lower-rated securities to earn better **returns**. "The allocation changes and the ratings of the instruments added in the portfolio should be monitored. AAA-rated securities have a rare chance of defaulting. An IL&FS type default is very rare in the market," says Babu Krishnamurthy, Chief Sherpa, Finsherpa Investment Services.

Duration of the instruments: Another risk that you want to refrain from taking is the interest rate risk. When the interest rates go up, the longer duration bond funds are hit the most and vice-versa. Mutual fund investors who do not want to take calls on the interest rate movements can opt for dynamic bond funds. "Duration funds or bond funds are susceptible to interest rate changes. Investors who do not want to take such risk should bet on schemes that hold lower maturity papers like short and ultra-short duration funds," says Babu Krishnamurthy.

Pedigree of the fund house: Mutual fund advisors believe that new investors and DIY investors should always opt for bigger fund houses. The established fund houses have lesser chances of taking risky bets. "For bigger fund houses, the cost of taking wrong or risky calls is too big as they manage a lot of money. It is also about the reputation that they can't hamper for extra returns. So, it is always a good choice to go for an established fund house with a good track record in managing schemes," says Puneet Oberoi.

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