



## Secure avenue in uncertain times

It has been a difficult phase for equity investors with stocks facing a challenge on the domestic as well as the global front. The domestic equity market faced problems emanating from Europe and policy paralysis of the Indian government, which affected its performance.

In such trying times, debt instruments offer a good opportunity given the Reserve Bank of India (RBI)'s continued hawkish stance. Stubbornly high inflation has led to high interest rates domestically. However, on April 17, 2012 we had some relief when the RBI surprised the street with a 50bps reduction in the repo rate, giving rise to hope that the interest rate cycle has peaked. However, the RBI in its policy has also mentioned that there is limited space for further reduction in policy rates till inflation continues to remain high.

In such a scenario the shorter end of the yield curve typically is likely to outperform and investors have the

opportunity to reap higher returns in short term debt funds compared to long term debt funds.

### For investors with surplus funds and looking to park for short duration (a week to six months)

We recommend that investors who have surplus money with them for a span of a week to less than six months can look to invest in ultra short-term and liquid funds as the RBI is unlikely to cut interest rates soon unless inflation comes down quickly. Such funds offer yields ranging between 9-10% (annualised) apart from offering high daily liquidity. Investors with a slightly higher risk appetite can also look at selective dynamic bond funds (these funds invest in short-term as well as long-term securities depending on the fund manager's view) which may do well.

#### Short term funds

Scheme name	1 M	3 M	1 -Year	3- Year	YTD (Jan-Apr 2012)	Since inception
Canara Robeco Short Term Ret-G	0.95	2.48	9.53	6.94	3.24	7.21
IDFC SSI ST Plan B-G	0.85	2.15	10.00	6.28	3.01	6.49
Principal Income Short-term-G	0.80	2.34	9.76	7.57	3.37	7.38
Category returns	0.95	2.22	9.50	6.96	3.05	NA

Returns upto 1 year are absolute and over 1 year are annualised.

#### Ultra short term funds

Scheme name	1 M	3 M	1 -Year	3- Year	YTD (Jan-Apr 2012)	Since inception
Tata Fixed Income Portfolio Scheme A3 Reg-G	1.01	2.64	10.34	6.71	3.55	7.01
JM Money Manager Super-G	0.93	2.56	10.16	7.82	3.43	8.14
Taurus Short Term Income-G	0.96	2.57	10.16	NA	3.44	8.80
Category returns	0.90	2.36	9.39	6.82	3.15	NA

Returns upto 1 year are absolute and over 1 year are annualised.

### For investors having surplus cash and looking to park for 2-3 years

In the current scenario, short term funds may outperform as interest rates are likely to stay higher. This is because the RBI will likely wait for more clarity on inflation before it cuts interest rates. However, longer term bonds and gilt mutual funds are likely to outperform in the longer run as once inflation starts to come down, interest rates are likely to come down eventually.

Such investors can either look to invest in longer term income funds or gilt funds. We recommend investors to look at longer term income funds which are currently offering yields in the range of 10-11% (taking into consideration current yields on funds and likely capital gains as interest rates start to soften). However, investors looking for 100% sovereign exposure may invest in gilt funds with the only risk being that yields on such funds may come under pressure and be a bit lower than income funds due to the huge borrowing program of the government.

#### Income funds

Scheme name	1 M	3 M	1 -Year	3- Year	YTD (Jan-Apr 2012)	Since inception
SBI Dynamic Bond-G	0.79	2.04	12.42	7.96	3.28	3.49
Templeton India Inc Builder A-G	1.16	2.64	11.15	6.97	3.79	9.00
Escorts Income-G	-0.17	1.23	12.79	7.67	3.53	9.43
BSL Dynamic Bond Ret-G	1.02	2.27	10.18	7.46	3.40	8.16
Category returns	0.84	1.90	8.99	5.78	2.95	NA

Returns upto 1 year are absolute and over 1 year are annualised.

#### Gilt funds

Scheme name	1 M	3 M	1 -Year	3- Year	YTD (Jan-Apr 2012)	Since inception
IDFC GSF Investment Plan A-G	0.91	1.08	10.52	5.03	3.03	7.22
Baroda Pioneer Gilt-G	0.56	2.27	12.81	11.18	3.50	5.22
Kotak Gilt Inv Regular-G	0.99	1.69	10.64	6.12	4.66	10.13
Category returns	0.43	0.60	7.04	3.97	2.47	NA

### For investors with surplus cash and looking to park for 1-3 years with high risk appetite

Monthly Income Plans (MIPs) are best suited for investors who are ready to take a little equity risk in order to enhance returns. Apart from debt investments, MIPs

typically take exposure in the range of 5-20% in equities to enhance returns. In the current scenario, MIPs are offering returns in the range of 9-12% for a tenure of one to three years.

#### Monthly income plan funds

Scheme name	1 M	3 M	1 -Year	3- Year	YTD (Jan-Apr 2012)	Since inception
DSP Black MIP-Growth	1.11	4.62	10.5	10.57	8.02	10.06
HDFC Multiple Yield-Growth	0.84	3.31	10.23	12.79	6.27	9.41
Birla SL MIP - Savings 5- Growth	0.82	2.47	9.42	8.03	3.96	8.62
Category returns	0.63	2.4	6.29	8.13	5.01	NA

Returns upto 1 year are absolute and over 1 year are annualized.

**Investors in higher tax slabs with surplus cash and looking to park it for 10-15 years**

Investors falling in higher tax slabs could invest in tax free bonds. Tax free bonds are offered by companies like

IRFC, NHAI and HUDCO among others which have very good ratings ranging from AA to AAA. These bonds are currently offering yields in the range of 7.5%-8.3%.

**Tax free bonds**

	Coupon rate (%)	Redemption date	Rating	CMP	Face value	YTM (%)	Interest due on
<b>15 Years tax Free Bond</b>							
IRFC N2	8.10	2/23/2027	AAA	1,005.0	1,000	7.97	1st Interest on 15-Oct-2012
NHAI -N2	8.30	1/25/2027	AAA	1,039.9	1,000	7.61	1st Interest on October of Every Year.
HUDCO N2	8.20	3/05/2027	AA+	987.0	1,000	8.24	1st Interest on 05-Mar-2013
<b>10 Years tax Free Bond</b>							
NHAI -N1	8.10	1/25/2022	AAA	1,032.0	1,000	7.64	1st Interest on October of Every Year.
HUDCO N3	8.10	3/05/2022	AA+	994.0	1,000	8.11	1st Interest on 05-Mar-2013
IRFC N1	8.00	2/23/2022	AAA	1,019.0	1,000	7.86	1st Interest on 15-Oct-2012

Hence to conclude, based on one's investment time horizon, risk appetite and return expectations, one can select the best investment avenue from the above mentioned options.

**Happy Investing****Disclaimer**

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