COMPARISON BETWEEN LIQUID MUTUAL FUND AND AGGRESSIVE MUTUAL FUND

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INTRODUCTION

Mutual fund is the ideal place for investor to park money. Each mutual fund have different schemes to invest and manage. An investor can invest in different schemes according to his or her wish, and can become the unit holder of the schemes invested money in a particular scheme of mutual fund. It is then the mutual fund invests accordingly in stocks and other instruments.

Mutual funds investments is a tradable instrument and follows “Marko-market” valuation for their assets. The investment risk is carried by investors, in this case it is the mutual fund, participate in the upside potential of the corporate equities and at the same time are also exposed to losses when markets fall.

Liquid Fund

Liquid fund has higher degree of liquidity and safety for the investment made by the investor. It has a average maturity period of 3 months. It is thinly affected by the interest rate fluctuation of the economy. When compared to traditional bank savings liquid mutual funds offers higher return. So it is a efficient way to park surplus amount and it has no exit load.

Types of Money Market Instruments:

a. Certificate of Deposit (CD)
b. Commercial Paper (CPs)
c. Treasury Bills (T-bills)

BENEFITS:

1. No entry and exit loads.
2. It is the best investment options for short term, when there is a high inflation environment.
3. Investors can withdraw their money in the form of fund at any time, and withdrawals can be process within 24 hours on a business day.
4. These are easy to redeem.
5. Better returns are available than fixed investments.
6. These are suitable for putting money aside for emergencies.
7. There is near about zero risk of loss if someone invests for at least one month.
8. These have given up to 50% to even at times 100% higher returns than the savings bank account.
9. The total liquid fund in India at AUM is around Rs 4,41,888.24 Cr.

Hybrid mutual fund

Aggressive hybrid mutual funds are a hybrid schemes. These schemes have both equity instruments and debt instrument in proportions. This fund allocates assets indifferent instrument and outcome is different from just plain vanilla bond. This instrument has no option of taking arbitrage opportunities. In arbitrage the securities can be bought at one stock exchange and can be sold in other.

The autonomy of this mutual fund has larger latitude than balanced mutual funds. This instrument allocates 20% in debt market and rest in equity securities. The manner in which stock is selected varies from growth to value. Similarly, the selection of debt securities differs from being highly sensitive to be low-interest-rate sensitive.

Things investors consider

Investment Horizon

It considers the investors time duration and how long they want to stay invested in the market. For equity one should have moderate to long term investment period. It helps the fund to realise its long term inheritance.

Financial Goals

It helps a person’s medium term goals of fulfilling personal desire. And how that person will invest for long term or moderate term.

Tax on Gains

This fund is treated like a simple equity fund and taxed accordingly. Short term capital gain(STCG) which is less than 1 year is taxed at 15% rate. Long term capital gain (LTCG) more than a year is tax free up to Rs 1 Lakh. Over one lakh is 10%.

The Year to date performance of the liquid mutual funds in India.

Liquid mutual funds till date have performed in a steady manner and average return is around 3%. People are showing steady interest in liquid mutual fund because of its high liquidity as it is a small tenure money market instruments including treasury bills, term deposits, certificate of deposits, commercial papers.

As it is a safe instrument and its return is quite steady, people tend to park the extra money in liquid mutual funds.
The Year to date performance of the hybrid mutual funds in India.

Hybrid mutual funds have given many negative yields in last few years.

The aggressive Hybrid mutual funds have not performed well in the market as it is subject to negative interest rate and equity rate fluctuations.

Average performance of liquid mutual fund in last 1 year

In last one year from 2019-2020 the performance is quite steady.

As it is money market instrument the Mutual funds returns were quite steady, ant there is a rise in the interest rate. The steady return is the prime reason why people invest in the money market. Return was around 5%.
Average performance in last 1 year of all the hybrid mutual fund companies.

Average performances of the aggressive Hybrid mutual funds were quite fluctuating. AUM performance varied with respect to YTM of the bond and Equity valuation.

AuM liquid debt investment in the market

HDFC liquid fund is the best in the market, the liquid mutual funds have invested heavily in the money market. It has invested around Rs 4,41,888.24 Cr in the market.
AuM Hybrid investment in the market

Hybrid fund investment is Rs1, 14,817.51 quite less than liquid mutual fund.
Growth in return by the liquid mutual fund in the last 1 Year.

Growth in the investment in liquid market was less in last one year.

Growth in return by aggressive hybrid mutual fund in last 1 year.

Investment by the hybrid market was stable last year.
NAV

NAV of all the Liquid mutual fund in last 1 year

NAV

NAV of the hybrid mutual funds is average.
Conclusion

Liquid mutual fund harbours higher concentration of investment in comparison to aggressive mutual funds. Liquid mutual funds offer a higher rate of return and have less risk appetite then aggressive mutual fund. Aggressive mutual fund is subject to market risk and negative yield of the fixed income market.

References

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