RESEARCH PAPER | Economics | Volume : 2 | Issue : 3 | December 2012 | ISSN - 2249-555X

Middle Income Group and Debt Fund

KEYWORDS: Equity fund, debt fund, middle income group, expense ratio

Dr. Shakti Kumar

Assistant Professor, Deptt. of Economics and Rural Development, Dr. RML Avadh University, Faizabad (U.P.), India-224001

ABSTRACT *Investors have either to invest in equity fund or in debt fund. Risk takers having high income should invest in equity fund and risk averter having fixed and low income should invest in debt fund. Middle income group should take less risk and should invest in debt fund whose*

Introduction
Investors having fixed income should invest in debt fund. They should not invest in Demat or equity fund. Equity fund is highly volatile and risky. Debt fund is little volatile and less risky. Middle or low income group can't bear the high risk associated with equity fund.

Literature review
Equity mutual fund is risk adjusted return in which individual fund does not earn higher returns from following the momentum strategy in stock (Carhart, 1997) because of investment constraints (Almazan, 2004). Therefore, an investor should invest in small equity fund whose trading activity is high (Dahlquist, 2000) or whose expense ratio is low (Malkiel, 1995) .Investors are advised to prefer low expense index funds; actively managed funds continue to be popular (Chordia T., 1996). The literature review finds no place of middle income group and debt fund suggesting study.

Objective
To asses comparative advantages between Debt and equity fund where middle income group should invest.

Methodology
Fixed income group will be treated as middle income group.

Analysis
India's mutual fund industry provides two options to retail investors-debt or equity as shown as in table-1. Equity fund depends on growth performance of the Indian economy. It is very much flexible. In this case, gain to investors depends on performance of the industries registered to stock exchange. Smart investors invest in a diversified equity fund to decrease the risk. Here, gain is directly associated with gain. On the other hand, an investment in debt fund is less risky and gain is almost guaranteed. In general, in this case, the investors invest in government security (G-sec). To minimize the risk it is suggested to invest in a short term debt – fund. If the rates of debt instruments (i.e. G-Sec, Certificate of Deposit and so on) raise, the gain to investor's increases.

India's mutual fund industry is able to provide economies to scale benefit to retail investors through minimizing transaction costs and better market accessibility. Mutual fund pools the retail investor's money which is managed by fund managers to maximize the yields. In this case, the investors do not have to pay transaction and brokerage fees as paid as in demat account. In the case of Demat account; the fund of an investor is managed by broker who is not professional as fund manager is. At the same time, some segments of debt instruments are not available to brokers but to institutions for transacting business.

India's mutual fund provides the trained, skilled, well informed professionals who understand the linkages between different markets and its dynamism. Funds manager is able to hedge the portfolios using options and powerful techniques. Most mutual funds are available in the form of SIP (Systematic Investment Plans) which allows investors to invest via fixed, small periodic payments. Through SIP a fund manager is able to buy more units when its price is low and fewer units when market is rising. SIP offers twin benefits of Rupees cost averaging and the power of compounding.

Table-1: A comparative study gain between Equity Fund and Debt Fund

Issues	Mutual Fund	
	Equity Fund	Debt Fund
Volatility	Highly volatile	Less volatile
Gain depends on	Market growth	Government declaration
Possibility of no gain	yes	No
Possibility of Loss	Yes	No
Possibility of very high gain	yes	Lower than equity fund
Suitable for	Rich investors	Middle
Who should invest	flexible income investor	Fixed income investor

Conclusion
Investors have either to invest in equity fund or in debt fund. Risk takers having high income should invest in equity fund and risk averter having fixed and low income should invest in debt fund. Middle income group should take less risk and should invest in debt fund whose expense ratio is low. Middle income group should take less risk and should invest in debt fund whose expense ratio is low.

REFERENCE Almazan A., Keith C.B., (2004), "Why Constrain Your Mutual Fund Manager?" J. of Financial Economics | Carhart, M.M., (1997), "On Persistence in Mutual Fund Performance", J. of Finance, Vol. 52, No. 1, PP-57-82 | Chordia T., (1996), " The Structure of Mutual Fund Charges ", J. of Financial Economics, Vol. 41, pp-3-39 | Dalquist M., Engstroem S. and Soederlind P.,(2000), "Performance and Characteristics of Swedish Mutual Funds", J. of Financial Quantitative Analysis, | Malkiel B.G., (1995), "Returns from Investing in Equity Mutual Funds ", J. of Finance, 50(2), pp-542-572.