It's wiser to remain invested over the long-run: Marzban Irani, LIC Mutual Fund

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Marzban Irani, CIO - Fixed Income of LIC Mutual Fund.

It is prudent to remain invested for the long-term in order to earn decent returns, even if the portfolio experiences losses or generates lower than expected returns in the short-term, as returns tend to normalise over a longer time horizon. In an interview with Money9, Marzban Irani, CIO – Fixed Income of LIC Mutual Fund talks about financial discipline and what investors should do in the current market scenario:

What is your outlook on debt mutual funds going forward?

expected to moderate from October 2021 with the start of the festive season. These baby steps towards rollback of liquidity along with higher inflation expectations indicate that we may see stance reversal in upcoming policies and may follow rate action as we approach the end of 2022. Since we are on the cusp of a rising interest rate scenario, investors may stay invested in the fund that is running at lower maturity and remain invested at the shorter end of the yield curve. New investors may opt for categories like overnight fund, liquid fund, and low duration funds

Some important clues to look beyond macro-development?

India's economic recovery and other macro indicators have been largely dependent on vaccination drive. 50% of the country's adult population eligible for covid vaccines has received at least one dose. The average daily vaccinations during August so far also increased as compared to earlier months. With a ramp-up in the supply of vaccines going ahead, the vaccination pace is likely to improve further. The increased pace of vaccination is expected to accelerate the unwinding of restrictions and improve demand. Higher exports and sufficient rainfall will provide support to economic growth.

What should be the course of action of debt mutual fund investors, should they start looking more towards equity funds given the bullish markets?

The existing investors in long-duration funds may stay invested for a three-year time horizon with discipline. It is wiser to remain invested to get reasonable returns over the long run, even if the portfolio may show losses or lower than expected returns in the short term since returns tend to normalized with a longer time horizon.

The quantum of equity investment should depend on investors' age, risk appetite, and investment goals. Debt funds are meant to preserve the capital and equity funds are meant to enhance its value. One should follow proper asset allocation based on the above factors for optimum results. Ideally, 100 minus your age should be allocated in equity as a percentage of one's total investment, and the rest should be allocated to the debt. Younger the age, higher the risk-taking ability and higher allocation to equity.

Can you list down which are the important parameters investors can look at before investing in debt mutual funds?

Risk is an inherent part of investing and debt funds are no exception to it. There are certain risks specific to debt funds which investor needs to be aware. The investors are expected to analyse their fund selection criteria based on risks associated with debt funds, to avoid negative returns instances in their debt fund investments.

Credit risk is the most detrimental to the performance of debt funds since it may lead to loss of principal for investors and therefore becomes a very important aspect to look at. Continuous rating downgrades in the portfolio indicate a higher probability of default and may cause permanent loss to the fund. Investors should be watchful of the fact when a fund's instruments are constantly getting downgraded.

Investors should further be cognizant of the fact that duration risk also makes the performance of the debt fund volatile. Since it is linked to interest rate movements which expose debt funds to price volatility. Longer duration funds are more volatile than shorter duration funds and may result in negative returns in a rising interest rate scenario.

Further, liquidity risk is posed specifically to debt funds due to illiquid and shallow debt markets. At times fund houses with a higher proportion of illiquid securities may get stuck with investment as the credit environment tightens. Furthermore, if such an event coincides with higher redemption, the mutual funds may have to liquidate such securities at an uneconomical price thereby impacting returns of the portfolio. Investors may access traded securities data available on exchange platforms to analyse the proportion of illiquid securities in the fund, before choosing it.

What are the risk you are anticipating in the current times?