



# What are short term mutual funds and should you invest in them?

In a world that is racing against time and looking for quick recipes, 15-minute meetings, 1 min reels, and SMS abbreviations to cut short words, wanting a short-term investment is only justified. You can have various immediate needs that may demand relatively faster solutions. **Short term mutual funds** cater to such needs.

Find out more about **short term mutual funds** to use them effectively for your goals.

## What are short term mutual funds?

**The name says it all!** **Short term mutual funds**, also known as short duration funds, are a type of **debt mutual funds in India** that typically have a short maturity period ranging from a year to three years on average. These open-ended schemes invest in debt instruments such as certificates of deposits, government securities, corporate bonds, etc.

## Should you invest in short term mutual funds?

A short-term mutual fund scheme can be ideal for your immediate financial needs. **Debt mutual funds in India** carry relatively lower risks. Additionally, they may offer better returns than other traditional investments and savings options. These funds are also highly liquid. So, you can consider them if you have an investment horizon of up to three years and want the option of having immediate access to your money anytime.

## What are the advantages and disadvantages of short term mutual funds?

Here's a list of pros, so you can be further sure of whether or not to invest in short term mutual funds:

1. **Low risk: Short term mutual funds** are debt funds and hence carry low risk compared to equity funds. They can be suitable for you if you have a low risk appetite or if you are not looking for high volatility in your investments.

- 2. Good for diversification:** Irrespective of your goals, debt mutual funds can help you diversify your portfolio and lower overall portfolio risk. If you have a portfolio that is concentrated on long-term investments, such as equity funds, you can consider adding some short-term **investment options**, such as a short term debt mutual fund.
- 3. Stable returns:** Since short term mutual funds invest in certificates of deposits, government securities, treasury bills, corporate bonds, money market instruments, etc., the returns are relatively more stable than stocks.
- 4. Option of SIPs:** You can invest in short term mutual funds through a Systematic Investment Plan (SIP). This helps you break down your investment into smaller instalments of a chosen frequency. SIPs reduce the investment burden and help you build financial discipline that contributes to achieving your goals sooner.

**There may also be some cons of short term mutual funds, such as:**

- 1. Risks:** Even though **short term mutual funds** are relatively low-risk **investment options**, they can expose you to credit risk, liquidity risk, and inflation risk.
- 2. Low returns than equity:** Compared to equity mutual funds, the returns generated by short-term funds can be rather low. These may not be ideal for all types of goals.
- 3. Affected by the prevailing rate of interest:** The rate of interest prevailing at a given time impacts the Net Asset Value (NAV) of debt funds. If the interest rate rises, the value of your fund decreases and vice versa. The more the interest rate fluctuates, the more it can affect the fate of your investment.

## **Conclusion**

Short term mutual funds may not be suitable for all goals, but they can be used effectively to invest your surplus funds or when preparing for an approaching financial need. They are also good diversifiers and help bring down risk in a portfolio.

An investor education initiative by Edelweiss Mutual Fund

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**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**