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Insights

Balanced Advantage Funds vs Balanced Funds. What fund should you Invest in?

Are you exploring the world of mutual funds for making a new investment? You may be surprised to see the variety in the types of funds available and recognise that sometimes it is difficult to spot the differences between various types of funds especially when they are similarly named. This is very true in the case of Balanced Advantage Mutual Funds and Balanced Mutual Funds.

What are Balanced Advantage Mutual Funds?

Typically a Balanced Advantage Fund has the ability to dynamically shift between equity and debt depending on market conditions. In the case of these funds, when the markets are high and have reached peaks, they shed exposure to equity and move funds into debt, so even if the markets decline, the gains that the funds have made stay intact. This category of funds was introduced during fund recategorization by Securities and Exchange Board of India (SEBI) in October 2017. These funds usually use their own in-house strategies to decide when the fund will shift from one asset class to another.

What is the difference between Balanced Advantage Mutual Funds and Balanced Funds?

A Balanced Advantage Fund primarily adjusts equity exposure on the basis of overall market valuations (expensive or cheap), whereas in the case of Balanced Mutual Funds, there is a pre-decided ratio of equity and debt investments. As an example, aggressive balanced funds keep 65-80 per cent of their investments in equities and the rest in debt. Here are some main differences between a Balanced Advantage Fund and a Balanced Fund.

Main Difference	Balanced Advantage MF	Balanced MF (Aggressive Hybrid Funds)
Constitution	Nearly 33% Equity 33% Arbitrage 34% Debt	65-80% Equity 35-20% Debt
Allocation	Dynamically allocated	Fixed allocation within a narrow band

Why are Balanced Advantage funds beneficial over Balanced funds?

Balanced advantage funds offer some benefits over the traditional balanced mutual funds. Here are some of them:

1) Protective against volatility: Balanced Advantage Mutual Funds are multi-dimensional. When the markets are overvalued, they inherit the characteristics of a hybrid scheme and can decrease equity exposure to as low as 30%. In such a situation, a balanced fund, due to its narrow allocation band, won't offer much protection.

2) Can act like a balanced fund: A Balanced Advantage Fund can actually even give the same returns as a traditional balanced fund in a fair value market and can maintain the balance between equity and debt exposure in such conditions. A balanced mutual fund may be suitable in similar conditions as well, but it is limited to fair value markets only.

3) Generate good growth: When markets are undervalued, Balanced Advantage Funds can increase equity exposure to as high as 80% to take advantage of lower valuations and generate considerable returns. It can thus act as an equity fund in such a situation. On the other hand, a balanced fund will have limited upside and won't be able to take full advantage in this situation.

4) Able to perform in flat markets: Since Balanced Advantage Funds have an arbitrage component, they are able to perform even when the markets are flat. This is a significant advantage over balanced funds which are limited to only equity and debt sides.

5) Eliminates the need to time the market: Balanced Advantage Mutual Funds eliminate the need to time the markets since they use dynamic allocation. On the other hand, it is best to enter Balanced Mutual Funds only after studying market valuations and their favourability.

A Balanced Advantage Fund and a Balanced Mutual Fund are both classed as equity funds for the purposes of taxation and enjoy similar advantageous position as far as capital gains taxes are concerned. However, Balanced Advantage Mutual Funds outshine Balanced Funds because they are able to perform in any market conditions and provide reasonable returns to risk-shy investors.