

# How can mutual funds help overcome the cash flow seasonality of tier-2/3 city investors?

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Investment has many purposes in life. In personal finance parlance, you are keeping your hard-earned money for a rainy day. But, sometimes, it may not come to your rescue due to longer maturity periods. The longer the period, the higher the chances of facing such a predicament.

The seasonal cash flow is always a problem, especially for small-town investors. The major reason for it is the relatively longer lock-in periods the traditional investment products carry. However, there are newer products that can beat this seasonality. Mutual funds may be the best among them.

Generally, investors from tier-2/3 cities choose conventional products such as life insurance, PPF, FDs or other term deposits that have longer gestation periods. Even today, semi-urban, rural investors have limited expertise to go for market-linked products. Even if they venture out to invest in equity/debt instruments, their decisions may not have the sound backing of professional investment advisors. This is a major lacuna that often leads to disastrous results.

### **Liquidity**

The feature of MFs, which helps overcome the cash flow seasonality, is their liquidity. Flexibility to exit the fund after a short lock-in period by paying an exit load is a big advantage in financial emergencies. Some schemes do not charge any exit fee at all.

Easier access to MFs is another attractive feature. Technology is supporting the market penetration of MFs in a big way. Robust digital distribution networks are aiding this growth.

Though small-town investors are keen to reap the benefits of capital markets, they allocate only limited resources to invest in equity/debt instruments due to the fear of heightened volatility. Whatever is allocated, they want to deploy safely and securely. Here, MFs are a good bet as they offer risk-adjusted returns in comparison with the high risks associated with direct exposure to volatile markets.

### **Professional Fund Managers**

When an investor chooses MF as an investment vehicle, the money will get the guidance of professional fund managers in all aspects of investment, which reduces the risk of losing the whole fund. MFs offer better portfolio diversification and fund management services at a reasonably lower cost. If solicited individually, these services often attract premium charges.

### **Tax Advantage**

On par with other tax-saving instruments, equity-linked saving schemes (ELSS) offer tax deductions. As tax benefits on debt mutual funds are no longer available, investors who have invested in debt mutual funds before March 31, 2023, are eligible to take advantage of indexation benefits.

### **Gain on Market Rally**

Unlike other non-market linked instruments, MFs offer an opportunity to redeem the units when the market is at its peak. In one way, it helps the investor overcome the problem of seasonal cash flow and reap the benefits of the market rally.

### **SIP for the Future**

While investing in MFs, you need not have to allocate a huge lump sum upfront. Even a small Systematic Investment Plan (SIP) may work wonders in the long run. Record inflow through SIPs reflects the investors' growing confidence in the MF industry. According to the Association of Mutual Funds in India (AMFI) data, the share of SIPs in the total Assets Under Management (AUM) is constantly rising – average 26 per cent growth a year - over the past few years. In FY23, SIP schemes received record investments of Rs 1.6 lakh crore compared with an investment of 1.24 lakh crore in the previous fiscal year.

However, investing in MFs is still an urban phenomenon. More than 80 per cent of the MF investments come from the top 30 cities. It signifies the immense potential of the industry to grow in tier-2/3 cities and rural India. It is a challenge as well as a big business opportunity of familiarising investment options in the untapped territories.

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