Short-Term Investments

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Executive Summary *– Short-term investments are good investment options that can be used to meet expected future expenses. Risks involved are lesser compared to long-term investments and they provide optimum returns. Liquid Mutual Funds, FMPs, Fixed Deposits, Bonds and Company deposits are short-term investment avenues.*

Short term investing allows investors to invest their money for optimum returns without locking the money for a long period of time. The investment tenure can range from a few months to 3 years. One should have a diversified financial portfolio with investments in different types of assets. Short term investments should also be part of the portfolio. Short term investments can be used to meet immediate future expenses. If you have excess cash that you might need to use in the near future, it is better to invest it in short-term investment options rather than holding it in savings accounts. This can help you earn better returns. There is an element of risk involved depending on the investment option but investing in short term investment options has the potential to increase the value of your money.

Here are some short-term investment options-

1. Debt Instruments - Debt instruments are a good investment option especially for risk-averse individuals. There has been a rate cut by the RBI but bonds are still good investment options. Your investment and returns are secure and there is no volatility. Returns are around 8%-10% which is good for short term savings. Government bonds are sold through authorized distributors like designated branches of banks and post offices.

2. Liquid Mutual Funds – They are a type of mutual fund where the objective is to protect your capital and at the same time give some returns. They are highly liquid which means there is no lock-in period. You can withdraw the money invested any time without any penalty. Liquid mutual funds usually invest in less volatile instruments like government securities and treasury bills. As an investor, you need not worry about the market highs and lows but still get optimum returns from your investments.

3. Fixed Deposits – You can invest your money in bank fixed deposits for earning interest. Fixed deposits of public sector banks and large private banks are considered as safe investment options.

Interest rates can range from 8% - 9.25% for FDs of 1 year.

4. Company fixed deposits – They are fixed income instruments raised by companies or NBFCs when they want to raise funds. They are more risky than fixed deposits but provide better returns. The investment tenure is from 1 year - 5 years. It is important to invest in those that are rated high my credit rating agencies like CRISIL. For example, instruments with a CRISIL rating of FAAA or FITCH rating of TAAA are considered good company deposits. Currently you can buy fixed deposits of Mahindra, HDFC or LIC Home Finance which are rated high.

Here is a table comparing Corporate Fixed Deposits -

Name	**Rating**	**Interest Rate - 1 Yr**	**Interest Rate - 3Yrs**
Mahindra	FAAA	9.00%	9.75%
HDFC	FAAA	9.40%	9.30%
LIC Home Finance	FAAA	8.90%	9.20%

** Read all terms and conditions of the instruments before buying*

5. Fixed Maturity Plans (FMPs) - They are close-ended debt mutual fund schemes with a fixed maturity horizon. These plans invest the money in fixed-income securities like Money Market Instruments, Commercial Papers (CP), Certificate of Deposits (CDs), Corporate Bonds and bank fixed deposits. The maturity period can range from 1 month to a few years. Dividend distribution tax is applicable on them.

Short-term investments involve some amount of risk but provide optimum returns. Returns may be less than that got from long-term investments but it is good to have a diversified portfolio with a mix of short-term and long-term investments. Also, keep in mind tax implications.

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