Wealth
Acumen

FIXED INCOME

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ABOUT THIS BOOK

This book is written to help you understand the world of fixed income investments in the simplest possible way. Most people know about bank deposits or bonds, but very few understand how these instruments actually work, how they generate returns, and how they fit into a complete investment plan.

In this book, you will learn:

- What fixed income really means and why it is considered a safe and stable investment option.
- The different types of fixed income products — government bonds, corporate bonds, debentures, fixed deposits, and more.
- How fixed income differs from equities, and why it is important for capital preservation and steady income.

Everything is explained in easy-to-understand language, real-world examples, and simple comparisons, so even beginners can follow without feeling overwhelmed.

By the end of this book, you will have a clear understanding of fixed income investing and the confidence to use these instruments smartly to build a balanced, secure, and reliable portfolio.

DISCLAIMER

This book is for educational and informational purposes only.

It is designed to help readers understand the structure and functioning of the stock market ecosystem. The content provided does not constitute financial, investment, legal, or tax advice. Parts of this eBook have been developed with the assistance of AI-powered tools to organize content, improve readability, and explain concepts in simple terms. While every effort has been made to ensure accuracy, there may still be unintentional errors, omissions, or updates over time.

Readers are advised to consult with a qualified financial advisor or professional before making any investment decisions.

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Stock market investments are subject to market risks. Please read all related documents carefully before investing.

ACKNOWLEDGEMENT

Writing this book has been a journey of learning, reflection, and purpose. I would like to express my heartfelt gratitude to everyone who contributed directly or indirectly to making this eBook a reality.

First and foremost, I thank my family and friends for their constant encouragement and belief in my vision. Their support gave me the motivation to complete this project with dedication and clarity.

I am also thankful to the countless individuals in the financial industry authors, educators, advisors, and investors whose knowledge and insights have helped shape the ideas presented in this book.

Special thanks to my mentors and professional peers who provided valuable feedback and guidance throughout the writing process.

Lastly, to every reader who picks up this book with the desire to learn and grow I acknowledge you with gratitude. This book is for you.

ABOUT WEALTH ACUMEN

Wealth Acumen is a one-stop platform for financial education and investment solutions. We aim to simplify mutual funds, stock markets, and personal finance for beginners while also offering practical investment services through our partnership with Angel One.

Whether you're looking to learn or invest, we guide you with clear insights, expert support, and trusted tools helping you grow your wealth with confidence.

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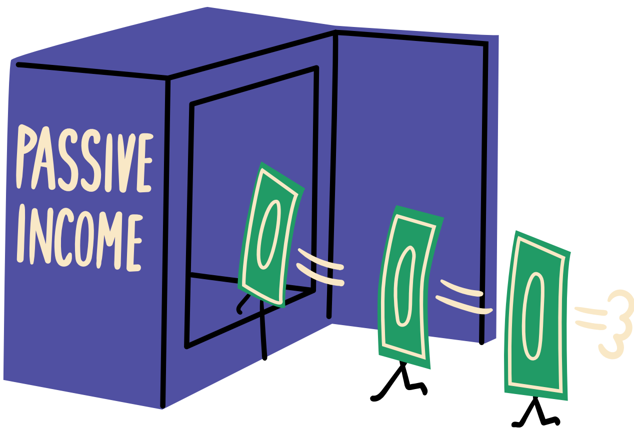
INTRODUCTION

Rahul is 30 years old and works in a private company. Every month he saves a part of his salary. One day, his friend tells him about the stock market. Rahul invests ₹1,00,000 in shares — and within a month, his investment jumps to ₹1,10,000. Excited, he feels like he's found the magic key to wealth. But in the next month, the stock price crashes and his investment falls to ₹80,000. Rahul realizes the stock market can be thrilling, but also risky.

To balance this risk, he decides to put another ₹1,00,000 into a fixed deposit at his bank. The bank promises him 7% yearly interest. No matter how the market moves, he knows he will get ₹7,000 every year, and at the end of 5 years, his full ₹1,00,000 back.

👉 This second option is called Fixed Income — investments that give you steady, predictable returns.



Fixed income refers to investments that give you a predictable and steady stream of returns, usually in the form of interest. Unlike stocks, where returns can go up and down depending on the market, fixed income products promise to pay you a fixed rate of return over a certain period.

Think of it like lending your money to a bank, company, or government. In return, they agree to pay you back your money (the principal) plus a fixed interest at regular intervals.

Common Examples of Fixed Income Investments:

- Bank Fixed Deposits (FDs): You deposit ₹1,00,000 for 5 years at 7% interest. Every year, you earn ₹7,000, and at the end of 5 years, you get back your ₹1,00,000.
- Government Bonds: Safer investments where you lend money to the government, and they pay you interest (called a coupon).
- Corporate Bonds/Debentures: Similar to government bonds, but here you lend money to companies. They usually pay a higher interest rate because of slightly higher risk.

Why Fixed Income Matters in Personal Finance?

Let’s take the example of Meera, a schoolteacher. She saves diligently for her future. She divides her savings into two parts:

- ₹5 lakh in mutual funds (for higher growth).
- ₹5 lakh in fixed deposits (for safety).

One year, the stock market falls by 15%. Her mutual funds lose value and are now worth only ₹4.25 lakh. But her fixed deposit has quietly grown to ₹5.35 lakh (7% interest).

This balance ensures that even though her risky investments fell, she still has money growing steadily on the safe side. That’s the power of fixed income in personal finance.

Benefits of Fixed Income:

1. Safety of Capital
    - Fixed income products are less risky compared to stocks.
    - Example: A stock worth ₹500 may fall to ₹300 in a week, but your FD of ₹1,00,000 will remain ₹1,00,000, no matter what.
2. Regular Income
    - Perfect for people who want a steady cash flow — like retirees or families with fixed monthly expenses.
    - Example: A senior citizen invests ₹10 lakh in a bond paying 8% annual interest = ₹80,000 per year (₹6,667 per month).
3. Diversification
    - Adding fixed income to your portfolio balances the ups and downs of the stock market.
    - Example: If your stocks fall 10%, but your bonds give you 7% return, your total portfolio doesn't crash badly.
4. Helps in Goal Planning
    - Useful for short-term or medium-term goals like buying a car in 3 years or saving for your child's education.
    - Example: Instead of keeping ₹5 lakh in savings (earning 3%), you put it in a 3-year FD at 7% = extra ₹60,000 earned.

How Fixed Income Works?

Fixed income investments work on a simple principle:

You lend money → You receive interest → You get your money back at maturity.

Step-by-Step:

1. You Invest (Lend Money)
   - Example: You buy a 5-year government bond worth ₹1,00,000.
2. You Earn Interest (Coupon Payments)
   - If interest = 7%, you will get ₹7,000 each year (or sometimes half-yearly/quarterly).
3. You Get Back Principal at Maturity
   - After 5 years, you get back your full ₹1,00,000.

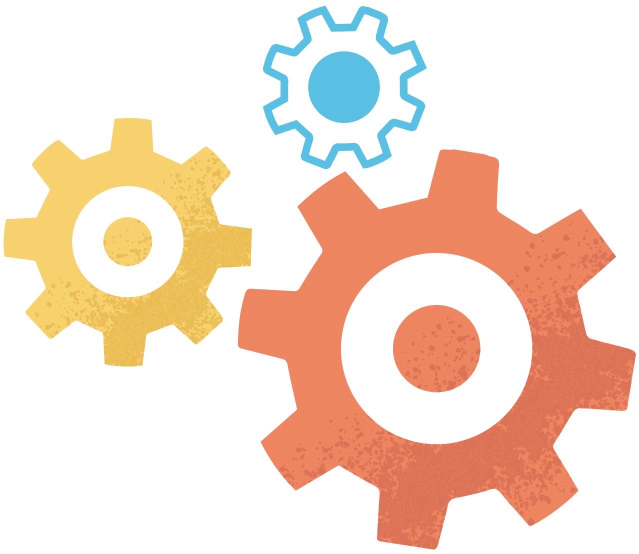
So, your total return = Interest (₹7,000 × 5 years = ₹35,000) + Principal (₹1,00,000).

Real-Life Analogy:

Imagine your friend borrows ₹10,000 from you and promises:

- "I'll pay you ₹500 every year as interest."
- "After 5 years, I'll return your ₹10,000 too."

That's exactly how fixed income investments work except your "friend" is a bank, company, or government, and the agreement is official and legal.



TYPES OF FIXED INCOME PRODUCTS

Fixed income products come in many forms. Some are offered by banks, some by the government, and some by companies. Each product has its own risk, return, lock-in period, and purpose. Let's break them down one by one.

Traditional Bank Products

1. Fixed Deposits (FDs)

A Fixed Deposit (FD) is the most common and simple fixed income product offered by banks. You deposit a lump sum amount with the bank for a fixed period, and the bank pays you a fixed interest rate.

- Tenure: Can range from 7 days to 10 years.
- Interest: Higher than a normal savings account, but fixed for the chosen period.
- Safety: Very safe, as banks are regulated by RBI.

Example:

Suppose you invest ₹1,00,000 in a 3-year FD at 7% annual interest (compounded quarterly).

- At the end of 3 years, you'll get around ₹1,23,000.
- This means your money grew safely without any market risk.

Advantages:

- Guaranteed returns, no market fluctuation.
- Flexible tenure choice.
- Senior citizens get higher rates (0.25%–0.50% extra).

Disadvantages:

- Interest is fully taxable as per your income slab.
- Premature withdrawal leads to penalty and reduced returns.
- Lower returns compared to inflation sometimes.

2. Recurring Deposits (RDs)

A Recurring Deposit (RD) is like a monthly savings plan with the bank. Instead of investing a lump sum (like FD), you deposit a fixed amount every month, and the bank pays you interest.

- Tenure: 6 months to 10 years.
- Contribution: Fixed amount monthly.
- Interest: Same as FDs (depends on bank).

Example:

You open a 2-year RD where you deposit ₹5,000 every month at 7% interest.

- By the end of 2 years, you would have deposited ₹1,20,000.
- With interest, your maturity value will be around ₹1,29,000.

Advantages:

- Encourages discipline in saving.
- Ideal for salaried people who can save monthly.
- Safe and simple.

Disadvantages:

- Interest is taxable.
- Less flexibility (you must deposit monthly, otherwise penalty).
- Returns are lower than inflation sometimes.

3. Savings-Linked Bonds

Savings-linked bonds are bonds that banks or financial institutions issue, linked to your savings account. These are not very common, but when offered, they give slightly higher interest than normal savings or FDs.

- How it works: The bond's interest rate is linked to the savings account rate, usually with some extra percentage.
- Safety: Generally safe if issued by reputed banks/PSUs.

Example:

Let's say your savings account pays 3% interest. A savings-linked bond may pay you 3% + 1% = 4% annually.

- If you invest ₹1,00,000, you'll earn ₹4,000 interest in a year.
- The interest may change if the savings rate changes.

Advantages:

- Slightly higher returns than savings accounts.
- Safe, as issued by banks/government-backed institutions.

Disadvantages:

- Limited availability (not all banks issue them).
- Lower returns compared to corporate bonds or tax-free bonds.
- Interest is taxable.

Government Securities

1. *Treasury Bills (T-Bills)*

T-Bills are short-term loans you give to the government, with maturity of less than 1 year. Instead of paying interest every month, the government sells them at a discount and repays the full value at maturity.

Example:

- Suppose you buy a ₹100 Treasury Bill at ₹96.
- After 1 year, the government pays you ₹100.
- Your profit = ₹4, which is the effective interest.

Key Points:

- Maturity: 91 days, 182 days, or 364 days.
- Issuer: RBI on behalf of Government of India.
- Safety: 100% safe (no default risk).

Best for: People who want short-term safe returns instead of keeping money idle in savings accounts.

2. Government Bonds (G-Secs)

These are long-term loans you give to the government, with maturity ranging from 5 years to 40 years. They pay regular interest, called a coupon, usually every 6 months.

Example:

- A 10-year Government Bond with 7% coupon.
- If you invest ₹1,00,000, you'll receive ₹7,000 per year (₹3,500 every 6 months) for 10 years.
- At the end of 10 years, you get back your ₹1,00,000.

Key Points:

- Long-term investment.
- Price may fluctuate if sold before maturity (interest rate risk).
- Very safe since backed by Govt. of India.

Best for: People looking for steady income and safety over the long term.

3. State Development Loans (SDLs)

These are bonds issued by state governments to fund projects like infrastructure, healthcare, or education. SDLs are similar to G-Secs but issued by states instead of the central government.

Example:

- Maharashtra issues a 7.5% SDL for 5 years.
- If you invest ₹1,00,000, you'll get ₹7,500 interest every year and your principal back after 5 years.

Key Points:

- Slightly higher returns than central govt. bonds.
- Backed by the state government, so very safe.
- Can be bought via RBI Retail Direct or stock exchanges.

Best for: Investors seeking safe investments with a bit more return than G-Secs.

4. Sovereign Gold Bonds (SGBs)

SGBs are bonds issued by the RBI on behalf of the government. Instead of holding physical gold, you invest in paper gold. They are linked to the price of gold. On top of that, you also earn 2.5% annual interest.

Example:

- You buy 10 grams worth of SGB when gold is ₹6,000 per gram → total investment ₹60,000.
- After 8 years, suppose gold price is ₹7,500 per gram → maturity value ₹75,000.
- Plus, you earn 2.5% interest every year (₹1,500 annually).

Key Points:

- Tenure: 8 years (exit allowed after 5 years on interest payment dates).
- Safe, as issued by Govt. of India.
- No storage risk (unlike physical gold).
- Capital gains are tax-free if held till maturity.

Best for: Investors who want to invest in gold safely + earn interest.

5. Bharat Bond ETF

An Exchange-Traded Fund (ETF) that invests in bonds of public sector (government-owned) companies. It has a defined maturity date, meaning if you hold it till maturity, you'll get predictable returns.

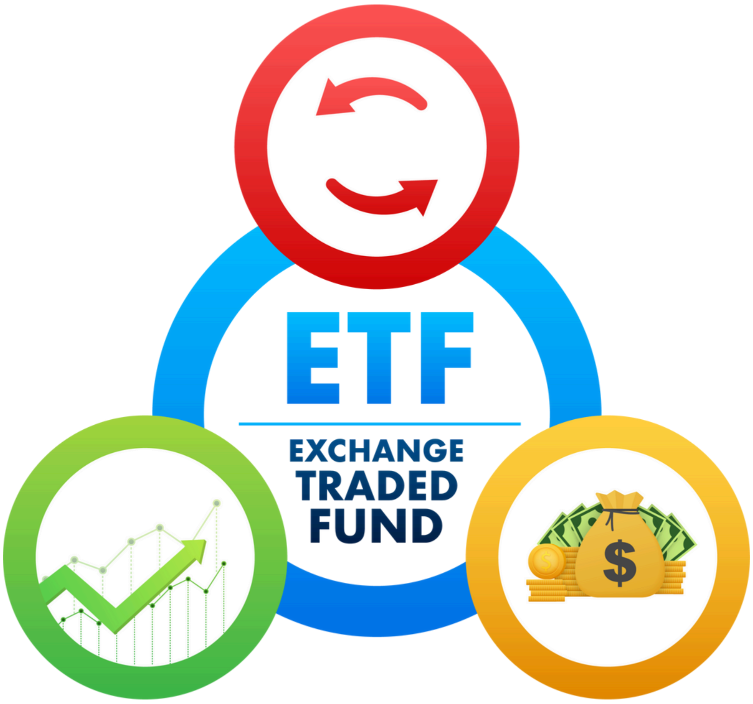
Example:

- Bharat Bond ETF (2033 series) invests in AAA-rated PSU bonds.
- If the yield to maturity is ~7.5%, investing ₹1,00,000 today could grow to around ₹2,06,000 in 10 years.
- You can also sell it anytime on the stock exchange before maturity (though price may fluctuate).

Key Points:

- Very safe, as PSUs are government-owned.
- More tax-efficient than FDs (indexation benefit on long-term capital gains).
- Traded like a stock on NSE/BSE.

Best for: Long-term investors seeking safe, predictable returns with better tax efficiency than FDs.



Corporate Fixed Income Products

Unlike government securities, these are issued by companies and banks to raise money. They usually offer higher returns than FDs and G-Secs, but also come with higher risk since the company must be financially strong to repay investors.

1. Corporate Bonds & Debentures

- When companies need money, instead of taking a bank loan, they issue bonds or debentures.
- Investors (like you) lend money to the company, and the company promises to pay interest (coupon) regularly and return your principal at maturity.

Example:

- Infosys issues a 7-year corporate bond at 8%.
- If you invest ₹1,00,000, you'll earn ₹8,000 per year for 7 years.
- At maturity, you'll get your ₹1,00,000 back.

Key Points:

- Corporate Bond = General term for debt issued by a company.
- Debenture = A type of bond. In India, "debenture" is often used interchangeably with corporate bonds.

Advantages:

- Higher returns than FDs and G-Secs.
- Regular fixed income.

Risks:

- Credit Risk: If the company is in trouble, it may default.
- Liquidity Risk: Sometimes difficult to sell before maturity.

Best for: Investors willing to take moderate risk for higher returns.

2. Commercial Papers (CPs)

- CPs are short-term debt instruments (up to 1 year) issued by companies to meet working capital needs.
- They don't pay interest directly; instead, they are sold at a discount and redeemed at face value (similar to T-Bills).

Example:

- A company issues a CP worth ₹1,00,000 but sells it for ₹96,000.
- After 6 months, it pays back ₹1,00,000.
- Your gain = ₹4,000.

Key Points:

- Issued by large, financially strong companies.
- Usually bought by institutions, but now available on some retail platforms.

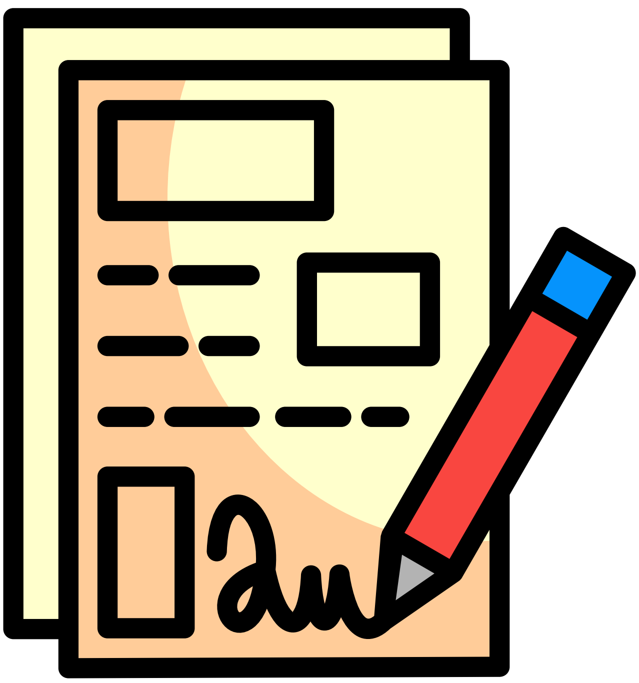
Advantages:

- Higher short-term returns than bank deposits.
- Flexible maturity.

Risks:

- Default risk if the company is weak.
- Limited availability for small investors.

Best for: Investors with short-term surplus money seeking better returns than savings/FDs.



3. Certificates of Deposit (CDs)

- A CD is like a fixed deposit issued by banks, but it is tradable in the market.
- Banks issue CDs to raise money, usually for 3 months to 1 year.

Example:

- A bank issues a 1-year CD at 7% interest.
- If you invest ₹10,00,000, you'll get ₹10,70,000 after 1 year.

Key Points:

- Very safe because issued by banks.
- Minimum investment is usually high (₹5 lakh or more).
- Short to medium-term product.

Advantages:

- Higher returns than savings accounts.
- Tradable in secondary market.

Risks:

- Not as liquid as a normal FD (depends on demand).
- Not usually available for very small retail investors.

Best for: High-net-worth individuals or institutions wanting safe short-term parking.

4. Non-Convertible Debentures (NCDs)

- NCDs are debentures that cannot be converted into company shares.
- They are fixed-income instruments where the company promises to pay interest and repay principal at maturity.

Types of NCDs:

- Secured NCDs: Backed by company assets (safer).
- Unsecured NCDs: No backing (riskier but higher interest).

Example:

- A Housing Finance Company issues a 5-year NCD at 9% interest.
- If you invest ₹1,00,000, you'll get ₹9,000 interest annually.
- After 5 years, you get your ₹1,00,000 back.

Key Points:

- Listed on stock exchanges (BSE/NSE), so you can buy/sell easily.
- Regular income (monthly, quarterly, or yearly interest).

Advantages:

- Higher interest than FDs.
- Tradable on exchange (provides liquidity).

Risks:

- Credit risk: If the company defaults, you may lose money.
- Market risk: Price may fluctuate if you sell before maturity.

Best for: Investors looking for higher returns than FDs with medium-term horizon.

Market-Linked & Innovative Products

These products are linked to market performance or special government/company initiatives. They often give better returns or tax benefits but may also carry risks.

1. Bond ETFs & Mutual Funds (Debt Funds)

- Instead of buying individual bonds (which can be difficult for retail investors), you invest in a fund or ETF that pools money and invests in multiple bonds.
- Bond ETF: Traded like a stock on NSE/BSE.
- Debt Mutual Fund: Managed by AMC (Asset Management Company), units can be bought/sold anytime.

Example:

- A Liquid Fund invests in very short-term government securities and corporate papers. If you invest ₹1,00,000, you may get ~6–7% annual return, with daily liquidity.
- A Gilt Fund invests only in government bonds. A ₹1,00,000 investment may give ~7% annually, but NAV fluctuates with interest rate changes.

Key Points:

- Diversification: Your money is spread across many bonds → lower risk.
- Liquidity: Can sell anytime (for debt funds, usually T+1 redemption).
- Taxation: If held >3 years, gets indexation benefit → very tax-efficient.

Advantages:

- Professional management.
- Easier access to bond markets.
- More liquid than buying bonds directly.

Risks:

- NAV (price) fluctuates with interest rates.
- Credit risk if fund invests in low-rated bonds.

Best for: Investors seeking market-linked returns from fixed income with flexibility.

2. Infrastructure Bonds

- Special bonds issued by government-backed institutions (like NHAI, REC, IRFC) to raise money for infrastructure projects.
- Often come with tax-saving benefits.

Example:

- You invest ₹20,000 in an infrastructure bond under Section 80CCF.
- You save tax (for example, if in 30% tax bracket → save ₹6,000 tax).
- Interest is usually 7–8%, payable annually.

Key Points:

- Tenure: Typically 5–10 years.
- Safe if issued by government-backed bodies.
- Limited issuance (not available all the time).

Advantages:

- Tax-saving + regular interest.
- Good for long-term safe returns.

Risks:

- Lock-in period (can't withdraw early easily).
- Interest is taxable.

Best for: Investors looking for tax benefits + safe returns.

3. Tax-Free Bonds

- Bonds issued by government-backed institutions (like NHAI, PFC, IRFC) where the interest earned is 100% tax-free.
- Generally long-term (10–20 years).

Example:

- You invest ₹1,00,000 in a 10-year tax-free bond paying 7.5%.
- Every year you get ₹7,500 interest, completely tax-free.
- If you are in the 30% tax bracket, this is equal to ~10.7% taxable return.

Key Points:

- Safe because backed by government bodies.
- Listed on exchanges → can be sold before maturity.
- Limited issuance (popular during launch, often oversubscribed).

Advantages:

- Best for high tax bracket investors.
- Regular income + no tax headache.

Risks:

- Long lock-in (if held to maturity).
- Price may fluctuate if sold early.

Best for: High-income investors wanting safe, tax-efficient long-term income.

4. Perpetual Bonds

- Bonds with no fixed maturity date. The issuer (usually banks) pays interest indefinitely, until they choose to "call back" (redeem) the bond.
- Higher risk than normal bonds, but higher returns too.

Example:

- A bank issues a perpetual bond at 9%.
- If you invest ₹1,00,000, you receive ₹9,000 every year, possibly forever, until the bank redeems the bond (say after 10 years).

Key Points:

- Usually issued by banks to strengthen their capital (Basel III norms).
- Higher interest than normal bonds.
- Risky – in extreme cases of bank failure, you may lose money (seen in Yes Bank case).

Advantages:

- Attractive high returns.
- Good for income-seeking investors.

Risks:

- High credit risk compared to FDs and G-Secs.
- No fixed maturity → principal may never be returned unless bank redeems.

Best for: Investors with high risk appetite looking for extra yield.

Small Savings Schemes

These are government-backed savings options that provide safe returns, tax benefits, and long-term wealth creation. They are especially popular in India because of guaranteed returns and sovereign backing.

1. PPF (Public Provident Fund)

- A 15-year investment scheme that combines safety, decent returns, and tax benefits.
- Interest rate changes every quarter (currently ~7.1%).

Example:

- You invest ₹1.5 lakh every year for 15 years.
- At maturity, you may get around ₹40+ lakhs (depending on interest rates).
- Both interest and maturity are tax-free (EEE – Exempt, Exempt, Exempt).

Key Features:

- Lock-in: 15 years (partial withdrawal allowed after 7 years).
- Tax Benefit: Up to ₹1.5 lakh under Section 80C.
- Loan facility available against PPF balance.

Best For: Long-term investors looking for retirement corpus + tax benefits.

2. NSC (National Savings Certificate)

- A fixed-income investment with 5-year lock-in, offered by post offices.
- Interest ~7.7% (compounded annually, paid at maturity).

Example:

- Invest ₹1,00,000 in NSC → it grows to ~₹1,44,903 after 5 years.
- Annual interest is reinvested, but paid out only at maturity.

Key Features:

- Tax Benefit: Investment up to ₹1.5 lakh qualifies under Section 80C.
- Interest earned is taxable, but considered reinvested (except in the final year).
- Can be pledged as collateral for loans.

Best For: Safe, medium-term investors who want assured returns + tax savings.

3. KVP (Kisan Vikas Patra)

- A scheme where your money doubles in ~115 months (9 years 7 months) at current interest (~7.5%).
- Available at post offices.

Example:

- Invest ₹1,00,000 → Get ₹2,00,000 at maturity (after ~9.6 years).

Key Features:

- No tax benefit on investment.
- Interest is taxable.
- Minimum ₹1,000 investment, no maximum limit.
- Transferable between individuals.

Best For: Guaranteed money-doubling option with no market risk.

4. Senior Citizen Savings Scheme (SCSS)

- Special scheme for individuals aged 60 years or above.
- Interest rate ~8.2%, payable quarterly.

Example:

- A retired person invests ₹15,00,000.
- Every quarter, they get ₹30,750 interest credited to their account.

Key Features:

- Tenure: 5 years (extendable by 3 years).
- Max investment: ₹30 lakh.
- Tax Benefit: Investment eligible under Section 80C.
- Interest fully taxable (TDS applicable if above limit).

Best For: Retirees who want regular, safe income post-retirement.

5. Sukanya Samriddhi Yojana (SSY)

- A savings scheme for the girl child, with one of the highest small savings interest rates (~8.2%).

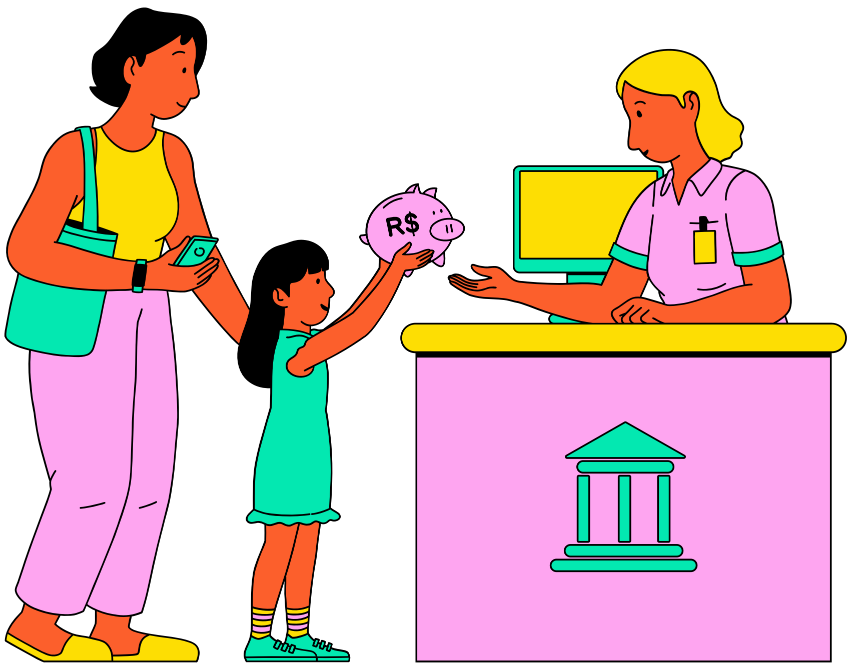
Example:

- Parents invest ₹1.5 lakh annually for 14 years.
- At maturity (21 years from account opening), corpus can grow to ₹65+ lakhs, tax-free.

Key Features:

- Can be opened for girl child below 10 years.
- Lock-in: Till she turns 21 (partial withdrawal allowed for education after 18).
- Tax Benefit: Investment, interest, and maturity all tax-free (EEE).

Best For: Parents planning long-term corpus for daughter's education & marriage.



UNDERSTANDING RISK IN FIXED INCOME

Even though fixed-income products are considered safe compared to the stock market, they are not completely risk-free. Different types of risks can affect your returns, your liquidity, or even your capital.

Let's break down each type of risk with simple explanations and relatable examples.

🔁 *1. Interest Rate Risk*

When interest rates in the economy change (usually decided by RBI in India), the value of your fixed-income product—especially bonds—can go up or down.

📉 When interest rates go up, bond prices go down.

📈 When interest rates go down, bond prices go up.

🧾 Example:

Imagine you buy a government bond today that gives you 6 % interest for 10 years.

One year later, RBI increases the interest rate and new bonds now give 7 % interest.

Now your bond giving 6 % looks less attractive to new buyers.

If you try to sell it, you may get a lower price than what you paid.

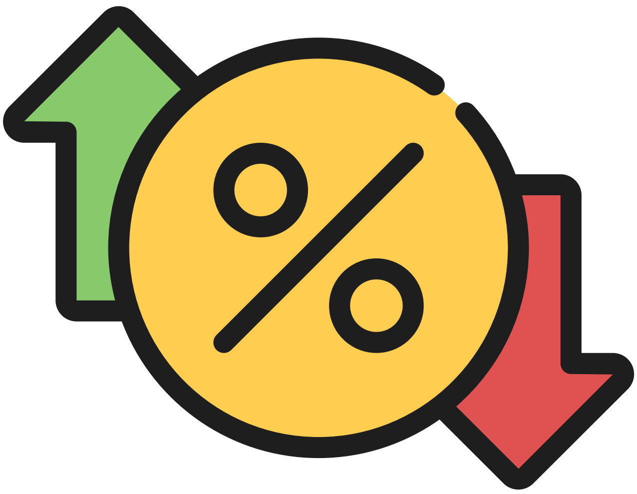
This is called interest rate risk.

🪙 Where it matters:

- Long-term bonds are more affected.
- Fixed Deposits are less affected because you don't sell them in between.
- Bond mutual funds and Bharat Bond ETFs are affected.

🧠 How to manage it?

- Hold bonds till maturity to avoid price fluctuations.
- Avoid long-term bonds if interest rates are expected to rise.



💳 ***2. Credit Risk***

This is the risk of default—when the company or institution that borrowed money from you fails to pay back interest or principal.

📉 If the borrower becomes bankrupt or faces financial trouble, you may lose your money.

🧾 Example:

You invest in a company's debenture that promises 8 % interest.
Later, the company goes into losses or fraud is detected.
They stop paying interest or even the principal.
This happened in cases like IL&FS, DHFL, and some NBFCs.
This is called credit risk.

🏛 Where it matters:

- Corporate bonds
- NCDs (Non-Convertible Debentures)
- Commercial Papers
- Even some mutual funds holding low-rated papers

✅ How to check it?

- Look at the credit rating: AAA (very safe), AA, A, BBB, etc.
- Higher returns usually come with higher credit risk.

🧠 How to manage it?

- Stick to top-rated companies (AAA/AA)
- Diversify instead of putting all money in one company
- Use debt mutual funds managed by professionals

💧 *3. Liquidity Risk*

This is the risk that you cannot sell your investment easily before maturity or have to sell it at a loss due to low demand.

🧾 Example:

You bought a 5-year corporate bond but after 2 years you need money urgently.

You try to sell it in the market—but no one is willing to buy it or they offer a very low price.

Now you either wait till maturity or take a loss.

This is called liquidity risk.

🪙 Where it matters:

- Corporate bonds and debentures
- NCDs
- Long-term government bonds
- Some debt mutual funds with low trading volumes

✅ How to avoid it?

- Prefer products that are listed and traded actively (like Bharat Bond ETFs)
- Check whether the product is open-ended (like PPF or mutual funds)
- Always match your investment to your liquidity needs

📈 ***4. Inflation Risk***

Inflation means prices of goods and services are rising. If your investment gives a fixed return, but inflation is higher than that return, your real return becomes negative.

📉 Your money is growing, but its buying power is reducing.

🧾 Example:

You invest ₹1 lakh in a bond giving 6 % interest = ₹6 000/year.

But if inflation is 7 %, then your real wealth is actually going down by 1 % every year.

You still get your ₹6 000, but you can buy less with it than before.

This is called inflation risk.

🪙 Where it matters:

- All fixed-return products (FDs, bonds, NSC, etc.)
- Long-term investments suffer more if inflation is not considered

✅ How to manage it?

- Choose inflation-linked bonds (if available)
- Invest in products that beat inflation like equity + debt mix
- Use tax-efficient products to maximize post-tax returns

🔁 *5. Reinvestment Risk*

This is the risk that when you get interest or maturity money, you may not be able to reinvest it at the same attractive rate as before.

📉 You may have to accept lower returns on reinvestment.

🧾 Example:

You buy a 3-year FD at 7 %.

After 3 years, it matures, and now the bank is offering only 5.5 % FD rates.

You have no choice but to reinvest at lower rates.

This is called reinvestment risk.

🪙 Where it matters:

- Short-term FDs or bonds
- Bonds with regular interest payouts (like annual coupon bonds)

✅ How to manage it?

- Lock in long-term investments when rates are high
- Use cumulative options (where interest is reinvested automatically)
- Stagger investments using laddering strategy

PRACTICAL ASPECTS OF INVESTING IN FIXED INCOME

1) How to Invest in Fixed-Income Products

A. Direct purchase (banks, RBI, issuers)

What you can buy directly

- From banks/post office: FDs, RDs, SCSS, PPF, NSC, KVP, SSY, and primary issues of SGBs during issue windows.
- From RBI (Retail Direct): T-Bills, Government of India bonds (G-Secs), State Development Loans (SDLs) in primary auctions and secondary market via your free Retail Direct Gilt (RDG) account.

RBI Retail Direct — 5-step quick start

1. Keep PAN, Aadhaar, bank account, email & phone handy.
2. Register for an RDG Account on RBI Retail Direct (no fees).
3. Add nominee, link bank account.
4. Primary auctions: place a non-competitive bid for T-Bills, G-Secs, or SDLs (you don't need to quote a price).

Secondary market (NDS-OM – Retail): buy/sell outstanding government securities any time during market hours.

Bank branch/app — 3 clicks

- Log in → Open FD/RD (choose tenure, payout frequency) → confirm.
- For SGBs during issue weeks: apply in net-banking or at a branch/post office; allotment units can be held in demat or as a certificate. (On maturity, capital gains are tax-free; interest is taxable.)

B. Through stock exchanges (NSE/BSE)

What you can buy/sell

- Listed corporate bonds/NCDs, tax-free bonds, perpetual/AT1 bonds, SGBs (secondary), G-Secs/SDLs/T-Bills (exchange route), debt ETFs like Bharat Bond ETF.

What you need

- Demat + trading account with any broker.
- Optional: UPI for IPO/NCD bids; or ASBA via bank.

Order checklist (very important for beginners)

- Check Yield-to-Maturity (YTM), coupon, maturity/date, credit rating, call/put features, accrued interest, lot size, bid-ask spread (liquidity).
- Prefer delivery (CNC) orders; avoid market orders in thinly traded bonds—use limit price.

C. Via mutual funds/ETFs

When this route helps

- You want easy diversification and professional credit research.
- You don't want to pick individual bonds or deal with liquidity/settlement.

How to buy

- Debt mutual funds (regular or direct) via AMC sites or platforms.
- Debt ETFs (e.g., Bharat Bond ETF) via your broker like a stock; or use the FoF (fund-of-fund) variant if you don't have demat.

What to look at

- Portfolio quality (rating mix), modified duration (rate sensitivity), expense ratio, AUM, exit load, and for target-maturity funds (TMFs): the portfolio YTM and maturity date (hold till maturity for near-predictable outcomes).

2) Taxation Rules (simple summaries + examples)

Tax law changes often***

A. TDS on interest (FDs/RDs/SCSS etc.)

- From Apr 1, 2025 (FY 2025-26):
  - Banks/co-op banks/post office will deduct TDS only if annual interest exceeds
  - ₹1,00,000 for senior citizens, ₹50,000 for others. Rate is generally 10% if PAN is furnished; 20% if not.
- You can submit Form 15H/15G to avoid TDS if your total income is below the taxable limit.

Example (non-senior, FY 2025-26):

Priya earns ₹60,000 FD interest. Bank deducts TDS because she crosses the ₹50,000 threshold. If PAN is on file, TDS is 10% of interest. She adjusts it in her tax return.

B. Interest vs Capital Gains — what's taxed how

- Interest/coupon from FDs, bonds, NCDs, SCSS → taxed at your slab in the year received.
    - SGB interest (2.5% p.a.) is also taxable, but no TDS is deducted by the RBI; investors pay tax while filing returns. Capital gains on SGBs at maturity are fully exempt; if you sell on exchange before maturity, capital gains tax applies as per holding period/indexation rules in force.
- Capital gains on sale/transfer depend on holding period and asset type. From July 23, 2024, India simplified capital-gains rules:
    - Only two holding periods now: ≥12 months for listed securities; ≥24 months for other assets → counted as long-term.
    - LTCG rate standardized to 12.5% without indexation for transfers on/after July 23, 2024 (surcharge/cess extra). Before that date, many assets had 20% with indexation.

What this means for common fixed-income assets

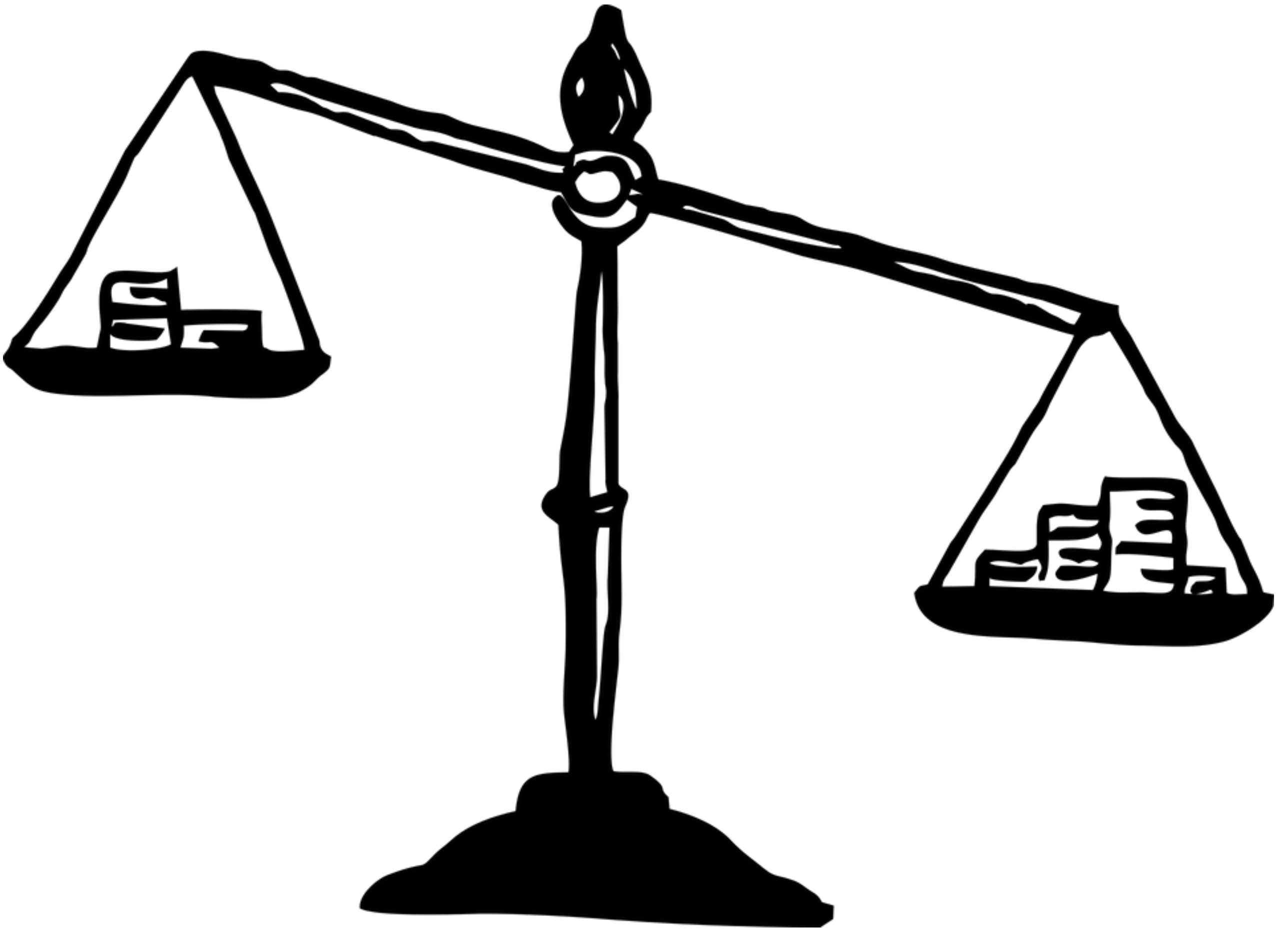
- Listed bonds/NCDs/tax-free bonds:
    - Hold ≥12 months → LTCG @ 12.5% (no indexation); <12 months → STCG at slab.
    - Interest remains taxable at slab.
    - TDS on interest for listed corporate debentures now applies (generally 10%)—an earlier exemption was withdrawn.
- Debt mutual funds / debt ETFs (incl. Bharat Bond ETF):
    - For units acquired on/after Apr 1, 2023, gains are deemed short-term and taxed at your slab rate (no indexation), regardless of how long you hold, under Section 50AA. (From FY 2025-26, the definition is refined to clearly cover debt-oriented schemes.)
    - Equity-oriented funds follow separate rules; not relevant here.
- SGBs: interest taxable; capital gains exempt on redemption at maturity; secondary-market sale → capital gains tax applies as per holding period rules on that date.

Example (listed bond sold after July 23, 2024):

Arun buys a listed NCD at ₹950 and sells after 14 months at ₹980. Gain ₹30 → LTCG @ 12.5% (plus cess/surcharge). The coupon received during the year is taxed separately at his slab.

C. Tax-free vs taxable bonds (quick view)

- "Tax-free bonds" (older PSU issues like NHAI/REC/IRFC from earlier years): interest is tax-exempt under the Act; capital gains on sale are taxable as per holding period. New public tax-free issues are rare these days; check the offering document.
- All other bonds (corporate, NCDs, most infra bonds): interest is taxable, and gains are taxed as above.



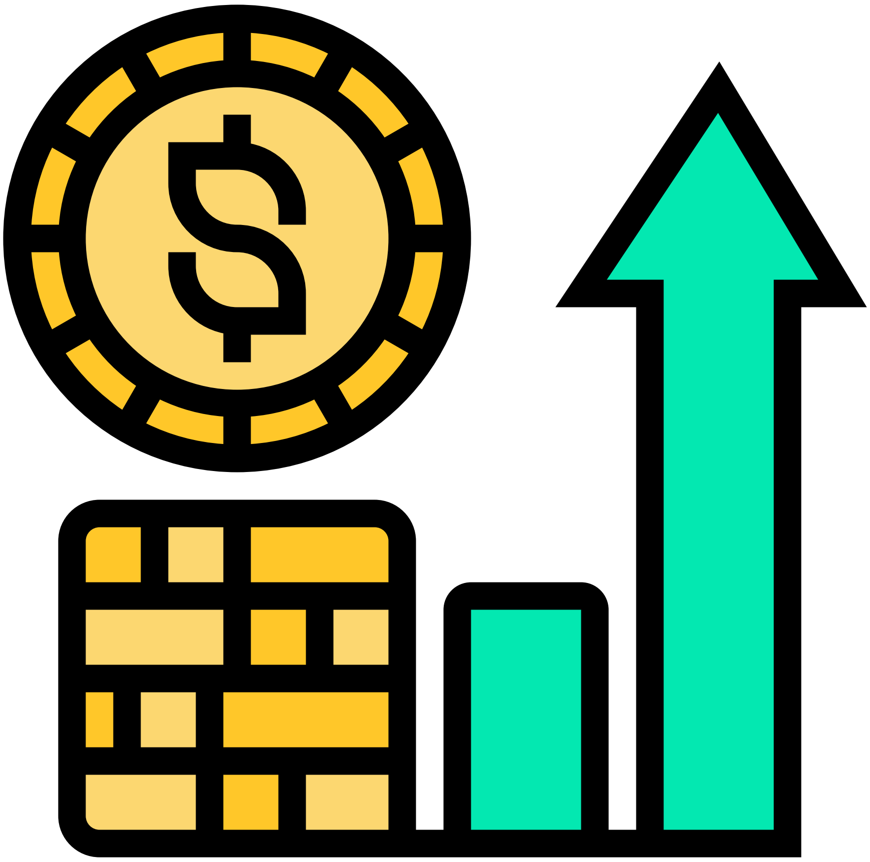
3) How to Select the Right Fixed-Income Product

A) When choosing the right fixed income product, the first step is to look at your goal and your time horizon that is, how soon you'll need the money.

- If your goal is to build an emergency fund that you might need anytime, safety and instant access matter more than high returns. In such cases, you should prefer bank savings accounts, fixed deposits (FDs), recurring deposits (RDs), or liquid mutual funds if you are comfortable with mutual funds. Another smart option is creating a T-Bill ladder, where you keep buying short-term Treasury Bills at intervals so that some part of your money keeps maturing regularly.
- For short-term goals (up to 1 year), like buying a gadget, paying for travel, or upcoming expenses, the priority should be capital protection and low risk. Here, short-term FDs, T-Bills, or short-duration debt funds are better choices.
- For medium-term goals (1–3 years), like planning for higher education fees or saving for a vehicle, you should match your investments to the time you'll need the money. Options like target-maturity funds maturing in the same year, government securities (G-Secs), or state development loans (SDLs) work well. Even high-quality corporate bonds can be considered if safety is ensured.
- For long-term goals (3–7 years), such as building a corpus for house down payment or children's education, stability and moderate growth matter. Products like G-Secs, SDLs, AAA-rated PSU bonds, and long-duration target-maturity funds are suitable.
- For very long-term goals or retirement (7+ years), wealth protection, inflation-beating returns, and security are most important. The best choices are PPF (Public Provident Fund), Sovereign Gold Bonds (SGBs) for gold exposure, Senior Citizen Savings Scheme (SCSS) for those above 60, and a ladder of G-Secs or SDLs to spread risk across different maturities.

B. Safety vs returns: set your risk dial

- Highest safety: T-Bills, G-Secs, SDLs (sovereign/State risk).
- High safety: AAA-rated PSU/financial-sector bonds, Bharat Bond ETFs (own PSU debt).
- Moderate: High-quality corporate bonds/debentures, top debt funds.
- Higher risk: Lower-rated bonds, perpetual/AT1 bonds (can absorb losses, may skip coupons). If you can't explain the risk in one sentence, skip it.



C. Smart diversification (keep it simple)

- Don't put > 10–15% in any single issuer (except GoI/States).
- Mix tenors (laddering): e.g., 6-month T-Bills + 1-year + 2-year → you get regular maturity points to reinvest.
- If you use debt funds, prefer simple, high-quality categories (liquid, money market, short duration, or target-maturity). Avoid funds that take credit or duration bets you don't understand.

D. A 6-point pre-purchase checklist

1. Horizon matches instrument maturity.
2. Credit quality you're comfortable with (AAA/sovereign for beginners).
3. Liquidity (can you exit easily? check traded volumes/spread on exchanges).
4. Post-tax return (your tax slab matters; SGB maturity benefit can be valuable).
5. Costs (fund expense ratio, brokerage, stamp duty, exit load).
6. Paperwork: KYC, demat (for exchange products), nominee, correct bank mandates.

4) Quick pitfalls to avoid

- Chasing yield in obscure bonds or perpetuals without understanding call risk and loss-absorption features.
- Ignoring liquidity—some listed bonds barely trade; exiting can be hard.
- Forgetting tax—post-tax returns matter (e.g., SGB maturity, PPF exempt; debt funds bought after Apr 1, 2023 are slab-taxed).

FUTURE OF FIXED INCOME

Fixed income investing is no longer limited to walking into a bank branch and opening a Fixed Deposit. Technology, government reforms, and global financial trends are reshaping how individuals can invest in bonds and other fixed income products. Let's look at the key developments

1. Digital Platforms & Online Bond Investing

Earlier, buying bonds was mostly restricted to big institutions or high-net-worth investors. Today, several digital platforms and apps allow retail investors (like you and me) to directly invest in corporate bonds, debentures, government securities, and debt mutual funds.

- You can now view live prices, compare yields, and invest with just a few clicks—just like buying stocks online.
- For example, platforms such as NSE GoBID, Angel one's Bonds section, or other fintech apps provide access to bonds starting with small ticket sizes (₹10,000–₹1 lakh).
- This is making bond investing transparent, convenient, and accessible for beginners.

2. RBI Retail Direct Scheme

The Reserve Bank of India has taken a major step to bring government securities closer to common investors. The RBI Retail Direct Scheme allows individuals to open a free Gilt (government securities) account directly with the RBI.

- Through this, anyone can buy Treasury Bills, Government Bonds, Sovereign Gold Bonds, and State Development Loans without needing a broker or bank middleman.
- For example, if you want to buy a 5-year G-Sec, you can log in to your RBI Retail Direct account, place a bid, and own it directly.
- This move is revolutionary because it makes safe and transparent investments available to every citizen, not just large institutions.

3. Global Perspective (How Bonds Work Abroad)

Globally, fixed income investing is a massive market. In developed countries like the US and Europe, most retirement portfolios are built around government bonds, municipal bonds, and corporate bonds.

- For example, in the US, investors can buy Treasury Bonds directly, and bond ETFs are extremely popular for retirement savings.
- Many global investors follow a “60-40 strategy”: 60% in equities and 40% in bonds for stability.
- Compared to India, global bond markets are far more liquid (easy to buy and sell) and retail-friendly, but with new reforms like RBI Retail Direct and Bharat Bond ETFs, India is slowly catching up.

4. Impact of Rising/Falling Interest Rates

One of the biggest factors that decides the future of fixed income returns is the interest rate cycle.

- When interest rates rise (like RBI hiking repo rate), newly issued bonds/Fds start offering higher returns. But existing bonds (with lower interest) lose value in the secondary market because investors prefer new higher-yield ones.
- When interest rates fall, the opposite happens. Existing bonds with higher locked-in interest become valuable and can be sold at a premium.
- For example: If you hold a bond giving 7% interest and the new rates fall to 5%, your bond becomes attractive to buyers, and its price rises.

Thus, understanding the interest rate environment is key to planning your fixed income investments. Long-term investors should ideally hold bonds till maturity (to avoid price fluctuations), while traders can benefit from rate movements.

The future of fixed income in India is becoming more digital, transparent, and accessible. With RBI's initiatives and online platforms, even small investors can participate in bonds. Globally, bonds are the backbone of retirement planning, and India is moving in that direction. However, investors must always keep an eye on the interest rate cycle, as it plays the biggest role in shaping returns.

Fixed income investments may not sound as exciting as stocks or cryptocurrencies, but they form the foundation of a strong financial plan. Whether it's the stability of government bonds, the security of small savings schemes, or the balance offered by debt mutual funds, fixed income products ensure that your wealth grows steadily and safely over time. As India's financial markets evolve—with innovations like digital bond platforms, RBI Retail Direct, and Bharat Bond ETFs—individual investors now have greater access than ever before. The future of fixed income is bright, transparent, and inclusive.

Remember, wealth creation is not just about chasing high returns—it's also about building a stable base of guaranteed income that supports your long-term goals. Fixed income gives you that peace of mind.

THE END