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WHY IS DEBT AN IMPORTANT PART OF YOUR INVESTMENT PORTFOLIO?

When it comes to investing, most people focus on equity mutual funds because of their potential to generate long-term wealth. However, a well-balanced portfolio should not depend entirely on equity.

While equity offers growth opportunities, it also comes with market volatility. Debt investments help balance this risk by providing relative stability, liquidity and income opportunities.

The objective is not just to grow wealth but also to manage the risks associated with it.

2. Why Should You Add Debt to Your Portfolio?

A. Stability During Market Volatility

Equity markets are influenced by economic conditions, geopolitical events and investor sentiment. During market corrections, an equity-heavy portfolio can experience significant losses. Debt investments generally have lower volatility and can help reduce overall portfolio fluctuations.

B. Diversification and Risk Management

Equity and debt serve different purposes and respond differently to market conditions. Combining them reduces dependence on a single asset class and creates a more balanced investment approach.

C. Capital Preservation

As investors accumulate wealth, protecting their gains becomes equally important. An appropriate debt allocation can help preserve a portion of accumulated wealth, particularly when investors approach their financial goals.

D. Liquidity and Financial Flexibility

Debt investments offer various options depending on the investment horizon. They can help investors manage short-term financial requirements, maintain emergency reserves and meet planned expenses without having to sell equity investments during unfavourable market conditions.

E. Better Investment Discipline

Market corrections often encourage investors to make emotional decisions. Having a debt component can help reduce overall portfolio volatility and provide the confidence to remain invested in equity for the long term.

3. What Are the Available Debt Investment Options?

Debt allocation does not necessarily mean investing only in fixed deposits. Investors can consider various instruments based on their requirements.

Investment Option	Purpose
Liquid Funds	Short-term parking of surplus funds
Overnight Funds	Very short-term liquidity
Ultra Short Duration Funds	Short-term investment needs
Short Duration Funds	Short- to medium-term allocation
Corporate Bonds	Interest income with credit risk
Fixed Deposits	Interest-based investment with defined tenure
Government Securities	Sovereign-backed debt exposure

Each instrument carries different levels of interest rate, credit and liquidity risk. Selection should depend on the investor's requirements and risk profile.

4. How Much Debt Should You Have?

There is no fixed allocation suitable for everyone. It depends on the investor's age, financial goals, investment horizon, risk appetite and existing portfolio.

For illustration:

- **Growth-oriented portfolio:** Higher equity allocation with a smaller debt component.
- **Balanced portfolio:** A combination of equity and debt to manage growth and stability.
- **Conservative portfolio:** Higher debt allocation with relatively lower equity exposure.

The allocation should be reviewed periodically and rebalanced whenever necessary.

5. Conclusion: The Right Balance Matters

Equity and debt are not competing investment options; they are complementary asset classes.

While equity aims to generate long-term wealth, debt helps provide stability, diversification and financial flexibility.

A portfolio invested entirely in equity may expose investors to high volatility, while an appropriate debt allocation can help create a more balanced investment strategy.

At Wishlist Capital, we believe in building portfolios that balance growth with stability. Our approach focuses on understanding individual financial requirements, assessing risk profiles and maintaining suitable asset allocation through regular monitoring and rebalancing.

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