Short term savings products

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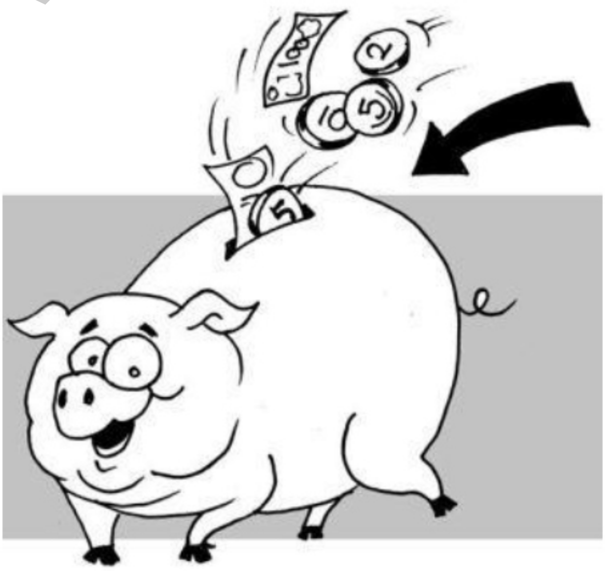

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- **Return:** The rate of interest is fixed in advance. It varies slightly from bank to bank. The interest is higher than the savings account interest. Interests are usually in the range of 6-10% per annum. The rate of interest that you receive is also linked to period for which you plan to keep your money in the bank deposit.
- **Risk:** Minimum risk. Bank deposits are backed by the RBI up to an amount of Rs. 1 lakh per person per bank.
- **Liquidity:** You can withdraw your money if you need to. However, you may be required to pay a small penalty. The penalty is usually in the form of a deduction in interest rate. For example, if you had invested for a period of 2 years at an interest of 8% and you decide to withdraw the amount at the end of 1 year, you may earn an interest of only 7%. The penalty could also be a small percentage of the amount of your deposit.
- **Tenure:** You can decide on the tenure (i.e. how long you would like to deposit your money) from amongst various tenure periods offered by the bank. Most banks offer you 4-6 tenure options to choose from. These can range from around 1 year to 5 years and even more.
- **Taxes:** The money that you receive as interest on your principal must be added to your other taxable income and is taxed at the rate applicable to you.

- **Return:** The rate is fixed in advance. Varies slightly from bank to bank and is linked to some standard rates used in the banking system. It could be in the range of 6-10% per annum. The rate of interest that you receive is also linked to the amount of time for which you plan to keep contributing to the recurring deposit.
- **Risk:** Minimum risk. Recurring deposits along with the amount in your savings account and bank deposits and are backed by the RBI up to an amount of Rs. 1 lakh per person per bank.
- **Liquidity:** You can certainly withdraw your money if you need to. However, you may be required to pay a small penalty. The penalty usually means that you may lose some part of the interest that you would have been due, if you had kept your deposit with the bank for as long as you had originally decided to. Alternatively, this could be a small percentage of the amount of your deposit.
- **Tenure:** You can decide on the tenure (i.e. how long you would like to deposit your money) from amongst various tenure periods offered by the bank. Most banks offer you 4-6 tenures to choose from and these range from around 1 year to 5 years and even more.
- **Taxes:** The money that you receive as interest must be added to your other taxable income and is taxable at the rate of tax applicable to you.

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- **Return:** It is not fixed in advance. It varies from scheme to scheme and depends upon the performance of the products in the particular scheme. Short term schemes that invest in government backed products usually offer a return of anywhere between 3% and 8%. Sometimes, it could be more or less than that. Performance of mutual funds that invest in shares can give returns above 15% in a good year or fall more than 15% in a bad year.
- **Risk:** There is no security of the amount that you invest. It could increase or decrease depending on the performance of the products in which the fund invests.
- **Liquidity:** You can sell off your units on any working day and you will receive the amount due to you within 3 working days. This is true for all mutual funds except Equity Linked Saving Schemes (ELSS) funds. With ELSS schemes, you get tax benefit under Section 80C, but at the same time, you can only sell them after 3 years of buying them.
- **Tenure:** There is no fixed time frame for which a scheme lasts. Investors have the freedom to buy or sell units to the mutual fund company anytime they would like to.
- **Taxes:** The money that you receive from a mutual fund company in the form of dividend or profit once a year is tax free. The tax payable on the profit you make when you sell your funds, if any is treated as capital gains and taxed depending on how long you have held your mutual fund units. If it is for less than 1 year, you have to pay short term capital gains tax. If it is for more than one year, you have to pay long term capital gains tax.

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