



Whether liquid funds are a good option for building emergency corpus?

[Liquid funds in India](#), due to their trait of being liquid, are suitable to be used to create an emergency corpus. They also generally carry less risk and are less volatile when compared to equity mutual funds. Read more to understand what you need to create an emergency corpus.

Liquid funds in India, as the name suggests are liquid. This means they can be easily converted from invested money into useable money. They have minimum 7 day's of exit load. . Before focusing on why to use liquid funds in India for emergency corpus, let's focus on how to build an emergency fund.

- **Examine your Cash Flow:**

First and foremost, check if can maintain the income which meets your monthly expenditure or basic needs. Due to pandemic-induced economic deceleration, salary cuts and business losses have affected the majority of the population throughout the world. If you have a surplus left after meeting your emergency corpus, you may then consider investing money.

- **Understand your risk-taking ability:**

Before you invest your money, gauge your risk taking abilities. If you are an investor reaching your retirement, then you might want to take a conservative stand. This means holding a bigger emergency corpus, say 24-36 months equivalent of expenses into a liquid mutual fund. [Liquid fund returns](#) may be lesser compared to a longer-term debt fund or other funds such as equity mutual funds, however, they can serve the main purpose of an emergency fund; which is offering you safety and liquidity at the time of need.

When selecting the [liquid funds](#) to invest in, note that the focus should not be on return but the safety and liquidity aspect, especially if you are building emergency funds.

Liquid Funds may not vary a great deal in returns. Invest in liquid funds which invest completely in short-term government securities of not exceeding 91 days and have no private party risks. Due to the short maturity period, they are not subject to volatility in interest rate fluctuations.

Liquid funds taxation is as per the holding period. For short term capital gains of lesser than three years, the gains are taxed as per the income tax slab of the investor. For long-term capital gains exceeding three years, liquid funds are taxed as per 20% with indexation benefit.

Traits of Liquid Funds in India that makes them an excellent choice for the Emergency fund:

- Liquidity:

Liquid funds can be easily converted to useable money. They can be easily redeemed and in just T +1 time the money gets credited to your account.

- Risk:

Liquid funds are less risky as compared to equity mutual funds. This helps to minimize the downside risk of your investments due to from market volatility to a certain extent.

Last but not the least, always choose mutual funds to create the emergency corpus you desire as the Mutual Fund industry is managed by professionals and regulated by SEBI.

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.