Arbitrage Funds

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Arbitrage Funds Latest News

Arbitrage (arb) funds are positioned to take advantage of the mispricing in futures contracts.

About Arbitrage Funds

- Arbitrage funds are **equity-oriented hybrid funds** that l**everage arbitrage opportunities in the market.**
- The basic principle behind arbitrage is to **take advantage of temporary price differences to generate profits** with **minimal risk.**
- These can be a **pricing mismatch between two exchanges**, **different pricing in the spot and futures market,** etc.
- The fund manager of an arbitrage fund **buys and sells the shares at the same time** and **earns the difference** between the **selling price and the buying price** of the share.
- The underlying principle is to capture the price spread between the buying and selling, often within a **short time frame.**

- This is fundamentally **different from any other form of investing, where you purchase an asset and wait for it to grow in value** before selling it.
- In an **arbitrage fund**, the fund manager **invests in equities only when** he finds a **definite opportunity to earn returns.**
- **If there are no arbitrage opportunities** available, then the **fund invests in short-term money market instruments and debt securities** to ensure stable returns.
- The important thing to note here is that the **price difference is usually very small.** Therefore, the fund manager has to make **several trades in one day to book a reasonable profit.**
- They are **classified as hybrid mutual funds** where according to the **Securities and Exchange Board of India (SEBI), at least 65% of the fund's assets must be in equities and equity-related securities.**

Arbitrage Funds Benefits

- **Low Risk, Equity-Like Returns:** Since the buying and selling are hedged, the risk is minimal, making it an attractive option for risk-averse investors.
- **Tax Advantages: Gains** from arbitrage funds **held for more than one year qualify as long-term capital gains (LTCG).**
- **Liquidity:** Arbitrage funds offer high liquidity, allowing investors to **redeem** their **money quickly** when needed.
- **Diversified Portfolio:** These funds diversify investments across various sectors and instruments, reducing the risk.

Arbitrage Funds Limitations

- **Market Dependency:** Returns are linked to market volatility; low volatility means fewer opportunities for arbitrage.
- **Short-Term Focus**: They may **not be ideal for long-term wealth creation.**

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