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A Study on Growth of Mutual Fund Development in Indian

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Abstract

Investment is a commitment of funds in real assets or financial assets. Investment involves risk and gain. In the present dynamic global environment, exploring investment avenues are of great relevance. Investment skills developed over a period of time are considerably influenced by experience and spadework carried out to arrive at conclusions. The success of an investment activity depends on the knowledge and ability of investors to invest, the right amount, in the right type of investment, at the right time. Real assets, being tangible material things, are less liquid than financial assets. Compared to financial assets, returns on real assets are more difficult to measure accurately due to the absence of broad, ready, and active market. Financial assets available to individual investors are manifold, having different concomitant benefits to choose from. All financial investments are risky but the degree of risk and return differ from each other. An investor has to use his discretion, which is an art acquired by learning and practical experience.

Keywords: Mutual Fund, Institutions, Categories, Money, Collection, Skill

Mutual funds are institutions that collect money from several sources-individuals or institutions by issuing 'units', invest them on their behalf with predetermined investment objectives and manage the same all for a fee. They invest the money across a range of financial instruments falling into two broad categories - equity and debt. Individual people and institutions no doubt, can and do invest in equity and debt instruments by themselves but this requires time and skill on both of which there are constraints. Mutual funds emerged as professional financial intermediaries bridging the time and skill constraint. They have a team of skilled people who identify the right stocks and debt instruments and construct a portfolio that promises to deliver the best possible 'constrained' returns at the minimum possible cost. In effect, it involves outsourcing the management of money.

More explicitly, the benefits of investing in equities and debt instruments are supposedly much better if done through mutual funds. This is because of the following reasons: Firstly, fund managers are more skilled. They are trained to identify the best investment options and to assess the portfolio on a continual basis; secondly, they are able to invest in a diversified portfolio consisting of 15-20 different stocks or bonds or a combination of them. For an individual such diversification reduces the risk but can demand a lot of effort and cost. Each purchase or sale invests a cost in terms of brokerage or transactional charges such as demat account fees in India. The need to possibly sell 'poor' stocks /

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bonds and buy 'good' stocks/ bonds demands constant tracking of news and performance of each company they have invested in. Mutual funds are able to maintain and track a diversified portfolio on a constant basis with lesser costs. This is because of the pecuniary economies that they enjoy when it comes to trading and other transaction costs; thirdly, funds also provide good liquidity. An investor can sell her/his mutual fund investments and receive payment on the same day with minimal transaction costs as compared to dealing with individual securities, this totals to superior portfolio returns with minimal cost and better liquidity.

In India one can gain additional benefit by investing through mutual funds tax savings. Investment in certain types of funds such as Equity Linked Tax Savings Schemes (ELSS) allows for certain amount of income tax benefits. This can be represented with the following flow chart:

Indian Panorama

The Indian capital market having a long history spanning over a century had passed through the most radical phase. The Indian Capital Market witnessed unprecedented developments and innovations during the eighties and nineties. One such development was the increased role the mutual fund industry played in financial intermediation. Mutual fund, as an institutional device, pools investor's funds for investment in the capital market under the direction of an investment manager. Mutual funds bridge the gap between the supply and demand for funds in the financial market. In India, the need for the establishment of mutual funds was felt in 1931 and the concept of mutual fund was coined in 1964, by the farsighted vision of Sri T.T. Krishnamachari, the then finance minister. Taking into consideration the recommendations of the Central Banking Enquiry Committee and Shroff Committee, the Central Government established Unit Trust of India in 1964 through an Act of Parliament, to operate as a financial institution as well as an investment trust by way of launching UTI Unit Scheme 64. The overwhelming response and the vast popularity of UTI Unit Scheme 64 and the Master share Scheme in 1986 attracted the attention of banks and other financial institutions to this industry and paved the way for the entry of public sector banks.

In the Past decade, Indian Mutual Fund industry had seen a dramatic improvement, both qualities wise as well as quantities wise. Before the monopoly of the market had seen an ending phase, the Asset under Management (AUM) was ₹ 67 bn. The private sector entry to the fund family raised the AUM to ₹ 470 bn. In March 1993 and till April 2004, it reached the height of 1,540 bn. Putting the AUM of the Indian Mutual Funds industry into comparison, the total of it is less than the deposits of SBI alone, Constitute less than 11% of the total deposits held by the Indian Banking Industry.

Review of Literature

Literature on Mutual Fund performance is too voluminous to cite. Graham Omits "to avoid clutter" a fund ask the SEC for special permission to distribute one of the holdings directly to the funds shareholders as his Graham -Newman crop did in 1948, Parceling out shares in GEICO to Graham Newman's own investors. This sort of distribution is extraordinarily rare.

Dual-Purpose Funds, Popular in the late 1980's have essentially disappeared from the market place - a shame, since they offered investors a more flexible way to take advantage of the skills of great stock pickers like John Neff. Perhaps the recent bear market will lead to a renaissance of this attractive investment vehicle.

Michael C. Jensen derived a risk-adjusted measure of Portfolio performance (Jensen's alpha) that estimates how much a manager forecasting ability contributes to Fund's returns.

S. Narayan Rao *et al*. Evaluated performance of Mutual Fund in a bear market through relative Performance index, risk return analysis, Treynor's ratio, Sharpe's measure, Jensen's measure, and Fama's measure. The study used 269 open ended schemes (out of total schemes of 433) for computing relative performance index. Then after excluding funds whose returns are less than risk-free returns, 58 schemes are finally used for further analysis. The Schemes in the sample of 58 were able to satisfy investor's expectations by giving excess returns over expected returns based on both premium for systematic risk and total risk.

Bijon Roy *et al*. Conducted an empirical study on conditional performance of Indian Mutual Funds.

This paper uses a technique called performance evaluation on a sample of eighty-nine Indian Mutual Fund schemes. This work measures the performance of various Mutual funds with both unconditional and Conditional form of CAPM, Treynor-Mazuy model and Henriksson-Merton model. The effect of incorporating lagged information variables into the evaluation of mutual fund managers performance is examined in the Indian context. The results suggest that the use of conditioning lagged information variables improve the performance of mutual fund schemes, causing alphas to shift towards right and reducing the number of negative timing Co-efficient.

Mishra *et al.* (2002) measured mutual fund performance using lower Partial moment. In this work measure of evaluating portfolio performance based on lower Partial moment were developed. Risk from the lower Partial moment is measured by taking into account only those states in which return is below a pre-specified "target rate "like risk-free rate.

Methodology

The research was based on Primary and secondary sources of information's. The study was empirical one consisting of analytical approaches of impact on different types of Mutual Funds in India. In the first Place it gives extensive exposition of theoretical background of historical evaluation of Mutual Fund: secondly perception and behavior (socio-economic aspect) of investor was analyzed.

This was based on information, Observation and experiences gathered during the collection of data. Further, authoritative evidences were given in support of the view points. Different literature journals, books, Governments report and other relevant statistics was used in the completion of this research.

Sample

In this study primary and secondary data were collected from 2000 onward of leading Mutual Funds i.e. SBI Sundaram, HDFC and LIC, BIRLA SUNLIFE, RELIANCE working in top cities. The responses were collected from those investors who willingly provide information for research. So to constitute a convenient sample, all the respondents were constituted who regularly invest in Mutual Funds.

Data Analysis

The manner in which the different types of primary and secondary data was processed. Following tools and technique was used in this study to acquire the degree perception of investors in Mutual Funds from the respondent about a Particular category of decision that he makes while investing in Mutual Funds.

Tools for Measurement

Following techniques are used to study the performance of Mutual Funds:

Average: Average means numbers or names, arrays or references that contained numbers. Other words average means number representations of numbers.

Standard Deviation: The Standard Deviation is a measure of how widely values are dispersed from the average value (the mean). Standard Deviation assumes that its arguments are a sample of the population. If data represents the entire population, then compute the Standard is calculating suing the-n-1l method.

Beta: A relative measure of the sensitivity return on security is to change in the broad market index return. Beta measure the systematic risk, it shows how prices of securities respond to the market forces. Beta is calculated by relating the return on a security with return for the market. Market will have 1.0, if the beta is greater than 1 than the stock is said to be very riskier than market risk, beta less than 1 than the stock is said to be not that much riskier as compare to the market risk. Beta involved market risk, and market risk involved political risk, inflation risk, and interest rate risk.

R-Square: R-Square measures the funds correlations to the market R-Square are between the 0 and 1.

NAV: NAV means the market value of the assets minus the liabilities on the day of valuation. In the other words, it is the amount which the shareholder will collectively get if the fund is dissolved or liquidated:

$$\text{NAV} = \frac{\text{Assets} + \text{Accrued Income} - \text{Liabilities} - \text{Accrued Liabilities}}{\text{Number of Share or Units Outs tan ding}}$$

RESULTS AND DISCUSSION

Performance appraisal of all the schemes operated by selected Mutual Funds was not possible because of non-availability of sufficient data, which is why, few schemes have been considered for the study. When this study was conducted the benchmarks available for the performance comparison were only the share indices, hence appraisal of debt scheme was not possible. The data given on different websites related to Mutual Funds even on websites of RBI and SEBI doesn't match at times, perhaps due to difference in timing of updating.

The Small investors face a lot of problems in the share market, limited resources, lack of professional advice, lack of information etc. Mutual funds have come as a much needed help to these investors. It is a special type of institutional device or an investment vehicle through which the investors pool their savings which are to be invested under the guidance of a team of experts in wide variety of portfolios of Corporate securities in such a way, so as to minimise risk, while ensuring safety and steady return on investment. It forms an important part of the capital market, providing the benefits of a diversified portfolio and expert fund management to a large number, particularly small investors. Now a days, mutual fund is gaining its popularity due to the following reasons:

1. With the emphasis on increase in domestic savings and improvement in deployment of investment through markets, the need and scope for mutual fund operation has increased tremendously. The basic purpose of reforms in the financial sector was to enhance the generation of domestic resources by reducing the dependence on outside funds. This calls for a market based institution which can tap the vast potential of domestic savings and channelize them for profitable investments. Mutual funds are not only best suited for the purpose but also capable of meeting this challenge. An ordinary investor who applies for share in a public issue of any company is not assured of any firm allotment. But mutual funds who subscribe to the capital issue made by companies get firm allotment of shares. Mutual fund latter sell these shares in the same market and to the Promoters of the company at a much higher price. Hence, mutual fund creates the investors' confidence.
2. The psyche of the typical Indian investor has been summed up by Mr. S.A. Dave, Chairman of UTI, in three words; Yield, Liquidity and Security. The mutual funds, being set up in the public sector, have given the impression of being as safe a conduit for investment as bank deposits. Besides, the assured returns promised by them have investors had great appeal for the typical Indian investor.
3. As mutual funds are managed by professionals, they are considered to have a better knowledge of market behaviours. Besides, they bring a certain competence to their job. They also maximise gains by proper selection and timing of investment.
4. Another important thing is that the dividends and capital gains are reinvested automatically in mutual funds and hence are not fritted away. The automatic reinvestment feature of a mutual fund is a form of forced saving and can make a big difference in the long run.
5. The mutual fund operation provides a reasonable protection to investors. Besides, presently all Schemes of mutual funds provide tax relief under Section 80 L of the Income Tax Act and in addition, some schemes provide tax relief under Section 88 of the Income Tax Act lead to the growth of importance of mutual fund in the minds of the investors.
6. As mutual funds creates awareness among urban and rural middle class people about the benefits of investment in capital market, through profitable and safe avenues, mutual fund could be able to make up a large amount of the surplus funds available with these people.
7. The mutual fund attracts foreign capital flow in the country and secure profitable investment avenues abroad for domestic savings through the opening of off shore funds in various foreign investors. Lastly another notable thing is that mutual funds are controlled and regulated by SEB I and hence are considered safe. Due to all these benefits the importance of mutual fund has been increasing.

CONCLUSION

Small investors face a lot of problems in the share market, limited resources, lack of professional advice, lack of information etc. Mutual funds have come as a much needed help to these investors. It is a special type of institutional device or an investment vehicle through which the investors pool their savings which are to be invested under the guidance of a team of experts in wide variety of portfolios of Corporate securities in such a way, so as to minimise risk,

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