AN ANALYTICAL STUDY OF MUTUAL FUNDS IN INDIA

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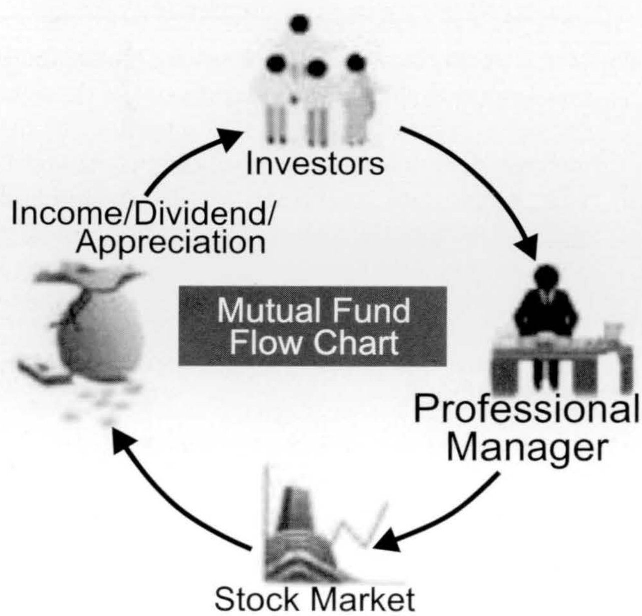
ABSTRACT

In this paper, we had to undertake a comparative study on share market and mutual funds. We had to undertake an analysis of the mutual funds, its benefits, and drawbacks and makes a detailed summary on its various aspects and then compare it with the share market. The money invested in this rise and fall market it better to invest in mutual funds for those investors who are risk adverse and for those who are risk takers it is better for them to invest in share market. We have discussed about the share market, benefits of investing in share market, its drawbacks and now study on various aspects of share market.

INTRODUCTION

The main role of Stock Exchange is to help in raising capital for business; Mobilizing savings for investment, Facilitate Company growth, Redistribution of wealth, corporate governance, Create investment opportunities



for small investors, etc. Government also raises capital for development projects.

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is invested by the fund manager in different types of securities depending upon the objective of the scheme. These could range from shares to debentures to money market instruments. The income earned through these investments and the capital appreciations realized by the scheme are shared by its unit holders in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed portfolio at a relatively low cost. The small savings of all the investors are put together to increase the buying power and hire a professional manager to invest and monitor the money. Anybody with an investable surplus of as little as a few thousand rupees can invest in Mutual Funds. Each Mutual Fund scheme has a defined investment objective and strategy.

LITERATURE REVIEW

Mutual funds industry is a growing at a very fast rate India. Various studies and research has been on this industry by experts. Here are the lists of few books that have been referred to for the purpose of the study.

Nalini Prava Tripathy in her book "Mutual Funds in India Emerging Issues" provides a detailed evaluation of investment management which is not only helpful for influencing marketing operations but also for securities selection, investment research and timing and resource allocation.

Mr. M. Jaidev in his book "Investment policy and performance of Mutual Fund" has studied the Indian Public Sector Mutual Funds. In this book he has covered risk, rate of return. Investment policy and pricing of mutual funds. In this book he has done an empirical study covering all aspects of mutual fund investment alongwith the regulatory framework.

Study by Laukkanen (2006) explains that varied attributes present in a product or service facilitate customer's achievement of desired end-state and the indicative facts of study show that electronic services create value for customers in service consumption.

Dr H. Sadak in his book "Mutual Funds in India" has highlighted the importance of financial institutions in India. It basically focuses on the growth and development

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of mutual funds in India. The entire gamut of the theoretical aspects of the fund management has been critically examined in the context of the performance of mutual funds and it provides an insight into fund management and the areas of weakness.

SIGNIFICANCE OF MUTUAL FUNDS

Mutual funds make saving and investing simple, accessible, and affordable. The advantages of mutual funds include professional management, diversification, variety, liquidity, affordability, convenience, and ease of recordkeeping—as well as strict government regulation and full disclosure.

- Diversification: The best mutual funds design their portfolios so individual investments will react differently to the same economic conditions. For example, economic conditions like a rise in interest rates may cause certain securities in a diversified portfolio to decrease in value. Other securities in the portfolio will respond to the same economic conditions by increasing in value. When a portfolio is balanced in this way, the value of the overall portfolio should gradually increase over time, even if some securities lose value.
- Professional Management: Most mutual funds pay topflight professionals to manage their investments. These managers decide what securities the fund will buy and sell.
- Regulatory oversight: Mutual funds are subject to many government regulations that protect investors from fraud.
- Liquidity: It's easy to get your money out of a mutual fund. Write a check, make a call, and you've got the cash.
- Convenience: You can usually buy mutual fund shares by mail, phone, or over the internet.
- Low cost: Mutual fund expenses are often no more than 1.5 per cent of your investment. Expenses for Index Funds are less than that, because index funds are not actively managed. Instead, they automatically buy stock in companies that are listed on a specific index.

DRAWBACKS OF MUTUAL FUNDS

- No Guarantees: No investment is risk free. If the entire stock market declines in value, the value of mutual fund shares will go down as well, no matter how balanced the portfolio. Investors encounter fewer risks when they invest in mutual funds than when they buy and sell stocks on their own. However, anyone who invests through a mutual fund runs the risk of losing money.
- Fees and commissions: All funds charge administrative fees to cover their day-to-day expenses. Some funds also charge sales commissions or "loads" to compensate brokers, financial consultants, or financial planners. Even if you don't use a broker or other financial adviser, you will pay a sales commission if you buy shares in a Load Fund.
- Taxes: During a typical year, most actively managed mutual funds sell anywhere from 20 to 70 per cent of the securities in their portfolios. If your fund makes a profit on its sales, you will pay taxes on the income you receive, even if you reinvest the money you made.
- Management risk: When you invest in a mutual fund, you depend on the fund's manager to make the right decisions regarding the fund's portfolio. If the manager does not perform as well as you had hoped, you might not make as much money on your investment as you expected. Of course, if you invest in Index Funds, you forego management risk, because these funds do not employ managers.

METHODOLOGY

Primary sources for data collection have been used for the present study. A reconnaissance survey will be made of the selected respondents to get acquainted with the factors behind to start analysis. On the basis of the information gathered, a well designed pre-tested interview schedule will be drafted and used in the field survey to collect primary data before undertaking the main survey. Most of the data has been mainly collected from the secondary sources Secondary Data has been collected from:

- Capitaline Database
- NSE Website
- BSE Website
- Mutualfundsindia.com
- AMFI Module
- Annual report and financial statements of mutual funds & financial instrument published at various time intervals

VALUATION OF MUTUAL FUND

The net asset value of the Fund is the cumulative market value of the assets Fund net of its liabilities. In other words, if the Fund is dissolved or liquidated, by selling off all the assets in the Fund, this is the amount that the shareholders would collectively own. This gives rise to the concept of net asset value per unit, which is the value, represented by the ownership of one unit in the Fund. It is calculated simply by dividing the net asset value of the Fund by the number of units. However, most people refer loosely to the NAV per unit as NAV, ignoring the "per unit". We also abide by the same convention.

CALCULATION OF NAV

The most important part of the calculation is the valuation of the assets owned by the Fund. Once it is calculated, the NAV is simply the net value of assets divided by the number of units outstanding. The detailed methodology for the calculation of the net asset value is given below.

- The net asset value is the actual value of a unit on any business day. NAV is the barometer of the performance of the scheme.
- The net asset value is the market value of the assets of the scheme minus its liabilities and expenses. The per unit NAV is the net asset value of the scheme divided by the number of the units outstanding on the valuation date.

DATA SET AND SAMPLE

The study suffers from certain limitations, although, the researcher will make every possible effort for comprehensive study of investment pattern, degree of risk and return to investors. Yet, non-availability of adequate information may be key limitation in few cases, the present study is confined only to the area of Delhi-NCR. Thus the findings can be generalized only to certain extent.

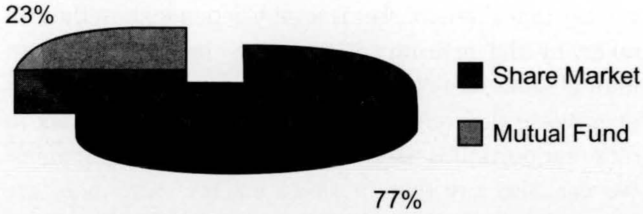
HYPOTHESIS TESTING

H01: There is a significant relationship between mutual funds and other financial instruments.

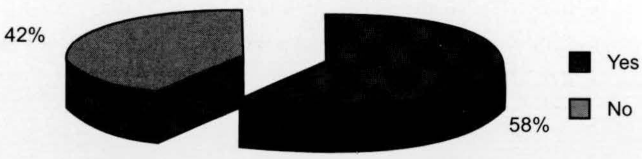
H02: The performance of mutual funds actually depends in the performance of the stock market.

RESULTS (QUESTIONNAIRE ANALYSIS (ANNEXURE))

- Return Comparisons: This pie chart shows that share market gives return of 77% as compared to mutual fund at 23% return. It signifies mostly that more people go for share market as compared to mutual funds.



- Current investment satisfaction: The chart shows the satisfaction level of current investment(in share) and long term investment(mutual fund) the chart here shows that the satisfaction level in current investment (shares) is 58% and satisfaction in long term investment (mutual fund) is 42%.



- Investors Monthly income ranges between 20000-40000 (40%) and 40001 and above (30%)
- Most preferred investment is insurance (25%), fixed deposit (23%) and mutual funds (20%), Post Office-NSC, others (20%)
- The most preffered factor for investment are Return on investment (40%) and safety (40%). Liquidity is the second preferred option (15%)
- 80% of the investors were aware of mutual funds
- Investors know about Mutual Funds mostly through Advertisement (45%) and Financial Advisors and Banks (25%)
- Only 20% Investors have invested in Mutual Funds
- Investors not invested in Mutual Fund because of 'higher risk' (30%) and 'not aware of MF' (54%)
- Only equity portfolio (12%) is least chosen
- Investor expects annual returns of 8 to 12%
- Most of the investors invest in mutual funds based on recommendation done by Financial Advisor (45%) and Bank (45%)
- Systematic Investment Plan (SIP)(52%) mode of investment is most preferred

CONCLUSION

The strategy adopted by me in completion of this project helped me a lot till now in making comparisons between share market and mutual funds. From the analysis we can say that if there is more risk there is more return and we can say that share market is totally dependent on the risk taken by the investors in investing in shares. And in mutual funds there is less risk as the money of investors is invested in different sectors so it can divide the risk in different portfolios adopted by mutual funds companies. We can also say that in share market, customers are decision makers while in mutual funds investors are totally dependent on assets management company, investors do not have active control on money invested by him/her.

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