PERFORMANCE OF MUTUAL FUNDS IN INDIA - A STUDY

Dr.D. Indira
Professor, Humanities and Sciences Dept
Gokaraju Rangaraju Institute of Engineering and Technology, Bachupally, Hyderabad
Email id: indiradendukuri@gmail.com, Ph.no:9966016412

A mutual fund is an intermediary that pools investors' savings for collective investment in a diversified portfolio of securities. A fund is mutual as the fund investor shares all of its returns minus its expenses. Thus, a mutual fund is a collective saving scheme. Mutual Funds are trusts of the public who will invest in the financial instruments for the mutual benefits of their customers. The mutual funds will pool the accumulated savings from the public and support them in a diversified portfolio of financial assets. The mutual fund is based on the concept of mutual help of the subscribers for portfolio investment. The concept of. A mutual fund was conceived to pool the resources of small investors and deploy the same in the capital market to help industrialization through participation in equity and other debt instruments. A mutual fund is a non-banking financial intermediary that acts as an important vehicle for bringing wealth holders and deficit units together.

The mutual fund industry has been playing an important role in restoring investors' confidence during the volatility period of the Indian Stock Market. The industry proved its worthiness and provided a cushion to the market during the recent market mayhem in May-June 2006 by becoming the net buyers when the FIIs turned the net sellers. Thus, mutual funds, originally established for the sake of retail investors, have now emerged as dominant players in the Indian capital market. A mutual fund is an investment company or trust that pulls the resources from several investors who share common investment goals and then diversifies its investment into the securities of different industrial sectors and companies to realize potential returns with reasonable safety. In the era of Globalisation, rapid price fluctuations occur in financial assets like equity shares, bonds, and physical assets such as real estate, gold, silver, etc. Therefore an individual investor finds it difficult to keep track of ownership of his assets, investments, brokerage dues, banking transaction dues, etc.

Objectives of Mutual Funds:

1. To provide a possibility for small investors to enter into the money and capital markets.
2. To act as the catalyst to divert the small savings towards stock market activities.
3. To Mobilize savings from NRIs
4. To provide tax benefits on the invested amounts.

Objectives of the present study:

1. To study the growth and development of the mutual fund industry in India.
2. To analyze the investment pattern of the select mutual fund schemes.
3. To evaluate the performance of mutual fund schemes.
4. To analyze the market timing ability of the select mutual funds.
5. To offer appropriate suggestions for developing the mutual fund industry in India.

The mutual fund industry has been playing an important role in restoring investors' confidence during the volatility period of the Indian Stock Market. The industry proved its worthiness and cushion provided to the market during the recent market mayhem in May-June 2006 by becoming the net buyers when the FIIs turned the net sellers. Thus, originally established for retail investors, mutual funds have now emerged as dominant players in the Indian capital market.

A mutual fund is an investment company or trust that pools the resources from several investors who share a common investment goal and then diversifies their investment into the securities of different industrial sectors and companies to realize potential returns with reasonable safety. In the era of Globalization, rapid price fluctuations occur in financial assets like equity shares, bonds, and physical assets like real estate, gold, silver, etc. Therefore, an individual investor finds it difficult to keep track of ownership of his assets, investments, brokerage dues, bank transaction dues, etc.

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 relatively at a low cost. Anybody with an investible surplus of a few hundred rupees can invest in mutual funds. Changes in the economic scenario, the interest falling rates of bank deposits, the volatile nature of the capital market, and the recent bitter experience of investors in making direct investments in capital market investments led to the increasing importance of mutual funds. They have played a significant role in the financial intermediation development of capital markets and the growth of financial sectors. Their dominant presence can see in the active involvement of mutual funds in economic development in the money and capital markets.

The mutual fund industry started in India with the Unit Trust of India (UTI) establishment in 1964, which was the only player in the mutual fund industry up to 1987. In 1987 the Gov of India permitted public sector banks and financial institutions to join the fray. From 1993 onwards, the industry was opened up for the private sector and foreign players to set up mutual funds in India.

The mutual fund system started thousands of years ago. In the past, Egyptians and phoneticians had followed á system of risk sharing. They started selling shares in vessels and caravans to spread the risk. After a long time, King William I of the Netherlands formed an investment trust in 1822. The present system of mutual funds took birth in the USA in 1930. The first mutual fund in India started with UTIs in 1964. It was established under the Unit TRUST OF India Act 1963.

The banking regulation act was amended in 1983 to permit the banks to carry out non-banking business activities such as mutual funds. Therefore, the public sector banks, such as SBI, Punjab National Bank and Canara Bank, etc., have set up their mutual funds. The other financial institutions, such as LIC and GIC, set up their mutual funds in 1989 and 1990, respectively. The Ministry of Finance regulates the mutual funds of LIC and GIC.

TYPES OF MUTUAL FUNDS:

1. Money market mutual funds.
2. Growth-oriented funds.
3. Income Funds
4. Balanced funds
5. Specialized funds
6. Offshore funds.
7. Tax-free funds.
8. Index funds.
9. Customer group funds.
10. Sector funds.

The mutual fund is based on the concept of mutual help of the subscribers for portfolio investment. The rules of RBI and SEBI govern the mutual funds. Mutual Funds are classified into two types viz, open-ended and close-ended funds.

The growth of the mutual fund industry preceded the development of a regulatory framework for the industry. Mutual funds began operating in India in 1964 when the UTI has created under a special act of Parliament. The operations of the UTI Ewere regulated under the provisions of the UTI Act 1963. However, in June 1987, the Govt. of India permitted public sector banks and other financial institutions to establish mutual funds. Initially, there were: no regulations for the public sector institutions. However, in July 1987, the RBI directed these banks to take prior approval from RBI for establishing mutual funds.

The Abu Hussain Committee on Capital Market, inter-alia, emphasized the need for strengthening the regulatory framework. It also recommended the setting up of joint sector mutual funds. Thus the Ministry of Finance, Govt of India issued another set of guidelines in June 1990. Which were similar to those issued by RBI. However, mutual funds sponsored by LIC and GIC were regulated by the guidelines issued by the Ministry of Finance since they are in the insurance business and hence, do not fall under the jurisdiction of RBI.

In February 1992, the Govt. of India announced a comprehensive set of guidelines to instill a sense of competition, transparency, and fair play and spur the mutual funds to a great level of efficiency and investor friendliness.

Thus, before 1993, there were three sets of mutual fund guidelines, viz, the guidelines pertaining to the UTI, outlined in the UTI Act1963, and the guidelines issued
by the Ministry of Finance guidelines. As the different agencies issued these guidelines, it was only too natural that they contradicted each other in many aspects and failed to cover all areas of mutual fund operations.

The other major development in the mutual fund industry has been creating a level playing field for all mutual funds operating in India. This happened in February 2003. UTI no longer has a special legal status as a trust established
by an Act. of Parliament.

Instead, it has also adopted the same structure as any other funds in India.-a trust and an Asset Management Company. SEBI now governs UTI mutual funds with the same regulations as all other mutual funds. The emergence of a uniform industry with the same structure, operations, and regulations make it easier for distributors and investors to deal with any fund house in India.

PERFORMANCE EVALUATION OF MUTUAL FUNDS :

From the investors' point of view, purchasing mutual fund units is one of the several alternatives to disposing of his savings. Hence, assessing the
Performance of funds with the relative merits and demerits of alternative investment avenues can make performance analysis. In such a case, the number of investments. Alternatives available to the investor and his reasons or motivations for holding an investment in mutual funds are to be known. There are two approaches to understanding the bewildering array of investment opportunities. The traditional approach views each type of investment as unique and describes its characteristics in detail. The modern approach selects several attributes, common to all investments, and then attempts to measure to what extent these attributes are suitable for a particular investment. All investors are interested in maximum returns out of a mutual fund. However, these returns are to be achieved at minimum risk. There is always a trade-off between risk and return. At present, the mutual fund industry is governed by the SEBI Regulations 1996. Apart from these guidelines, the present system of regulation of mutual funds also includes the provisions of the Indian Trust Act 1882, relevant provisions of the Companies Act 1956 and the Income Tax Act 1961, and The SEBI regulations mutual funds to 1996 are an attempt to remove many of the restrictions and guidelines which were found in 1993 regulations. Moreover, these guidelines brought into its fold new provisions concerning disclosure, transparency, and obligations on the part of mutual funds, Asset Management Companies (AMCs) trustees and key personnel associated with them. The existing regulations are quite comprehensive. The rationale for such comprehensive guidelines is that even in the freest of the free market, the mutual funds are regulated, and even a small non-compliance attracts heavy penalties in terms of monetary fines and suspension of business. The market regulations take the mutual fund business very seriously, and rightly so, as it concerns the small investor's savings.

CONCLUSION

Currently, the mutual fund industry is governed by the SEBI Regulations 1996. Apart from these guidelines, the present regulation system of mutual funds also includes the provisions of the Indian Trust Act 1882, relevant provisions of the Companies Act 1956, and the Income Tax Act 1961. The SEBI mutual funds regulations 1996 attempt to remove many of the restrictions and guidelines found in the 1993 regulations. Moreover, these guidelines brought new provisions about disclosure, transparency, and obligations on the part of mutual funds, Asset Management Companies (AMCs) trustees, and key personnel associated with them. The existing regulations are quite comprehensive. The rationale for such comprehensive guidelines is that even in the freest of the free market, the mutual funds are regulated, and even a small non-compliance attracts heavy penalties in terms of monetary fines and suspension of business. The market regulations take the mutual fund business very seriously, and rightly so, as it concerns the small investor's savings. _

References © O

1. Anthony, R.H.(1960). "The Trouble with Profit Maximisation." Harvard Business Review, November-December.

2. Baliga Ram (2004). «Case Analysis," Case November. Folio,

3. Chamberlin, E.H.(1962). The Theory of Monopolistic Competition. Cambridge: Harvard University Press.

4. Cohan, Peter S. (2000). E- profit, AMACON, New York: American Review XVIII, Economic September.

5. Dholakia, R.H., and A.H... Oza (1996). Microeconomics for Management Students. Delhi, Oxford University Press.

6. S.C. Kuchhal, The Industrial Economy of (Allahabad, India 1987)

7. Tata Services Limited, Statistical Outline of India, 2003-04,

8. Rakesh Mohan, "Financial Sector Reforms in India Policies and Performance Analysis," Economic and Political Weekly,

9. A. Karunagaran, DFIs "Should Be Economic Revived?® and Political Weekly, March 19, 2005

10. G.N. Bajpai, "Development Financing in a Changing Environment." Economic and Political Weekly, May 29, 2004.

11. Ibid., P. 2213

12. Ibid., P. 2214 O