



A detailed study of Mutual Funds

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Abstract

A mutual fund is a portfolio of stocks, bonds, money market accounts and other investments that are managed by financial professionals. A mutual fund provides investors with the opportunity to functionally invest in many different companies with a single purchase. Mutual fund provides a readymade option to households for portfolio diversification as well as relative risk aversion through collecting and investing their savings in different risk-return profile instruments. Its performance depends on the performance of underlying portfolio. If one or more schemes perform badly in the portfolio, that can effect or hurt the investment decisions of investors and may get them out from the scenario of wealth creation process. For saving investors' money from such a hazard, it becomes necessary to evaluate the performance of mutual fund portfolio so that investors can take/judge their investment decisions rationally. This evaluation would help in checking the prime idea of "putting all eggs in different baskets" behind mutual funds and guessing that how far this idea is doing well for investors. Investing in a diverse portfolio can make you a more resilient investor because

Before making your investment you should make sure you're comfortable with investing in the long-term. This could mean not touching it for five years or more. You'll also need to find an account you can afford to invest in. Aside from fees, some accounts have minimum investments that range in scope from zero to \$3,000. You'll also have to take your own age into consideration since the closer you are to retirement age the lower your risk tolerance.

Mutual funds are categorized based on the nature of their investment.

- Money market funds - Money market funds invest in short-term bonds issued by governments or corporations. Bonds are small loans that allow investors to make a profit off interest payments. Money market funds are low risk because they can only make high-quality investments.

- Bond funds - Bond funds come with greater risk because they generally seek a greater reward. That said, the risk and rewards can vary drastically from bond to bond. The fund that works best for you will depend on your goals and the investments you're able to make given your economic situation.
- Stock funds - Stock funds invest in companies. Here are some examples:
 - Growth funds: These focus on stocks that show potential for a high return on investment as opposed to dividend payouts. A dividend is a portion of a company's profits owed to investors paid on a regular basis.
 - Income Funds: These funds generate their profits from regular dividend payments.
 - Index Funds: These funds mimic the performance of particular indices such as the Dow Jones Industrial Average and the S&P 500.
 - Target-date funds - Using a mix of stocks, bonds, and investments, target-date funds shift in accordance with the fund's overarching goals. Known as lifecycle funds, these investments are designed to mature by particular retirement dates.

Introduction

The financial system comprises of financial institutions, instruments and markets that provide an effective payment and credit system that facility the channeling of funds from savers to the investors of the economy. Indian Mutual Funds have emerged as strong financial stability to the financial system. Mutual Funds have opened new vistas to investors and imported much needed liquidity to the system. Mutual fund industry started in the world in 1890 in the U.S.

Mutual Funds are dynamic financial institutions, which play a crucial role in an economy by mobilizing savings and investing in the capital markets savings and the investing in the capital markets. Therefore, the activities of Mutual Funds have both short and long term impact on the savings and capital market and national economy.

Mutual Funds provide households an option for portfolio diversification and relative risk aversion through collection of funds from the households and makes investments in the stock and the debt market.

Literature Review

Most of the literature available focuses only on mutual fund market growth, future trends and such other issues. Few countries like USA, Europe have concentrated on the research on mutual fund flows with its relevant market returns, whereas analysts, academic researchers in countries like India have paid least attention in these areas.

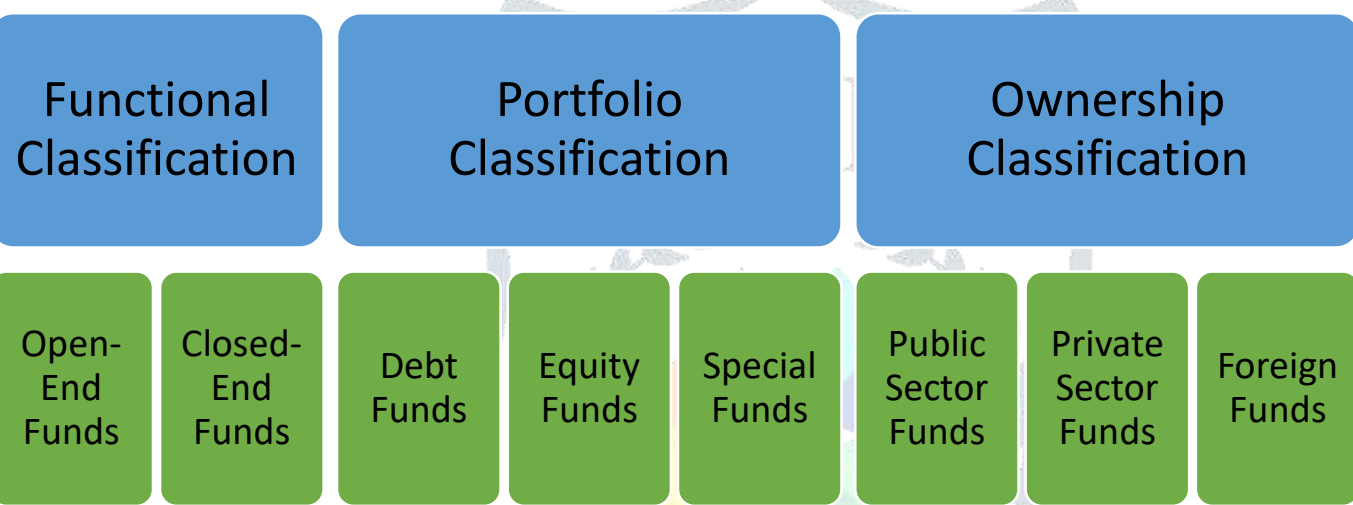
OBJECTIVES OF STUDY

The specific objectives of the study are as follows :

- To analyze the trends in returns of selected mutual funds.
- To evaluate the performance of selected Public and Private sector Mutual Funds.

Mutual Funds

Mutual Funds



Mutual Funds

A mutual fund is a financial intermediary that pools the savings of investors for collective investment in a diversified portfolio of securities. A fund is “mutual” as all of its returns, minus its expenses, are shared by the fund’s investors. Definition of mutual fund by Securities and Exchange Board of India (Mutual Funds) Regulations, 1996: A fund established in the form of a trust to raise money through the sale of units to the public or a section of the public under one or more schemes for investing in securities, including money market instruments’.

FUNCTIONAL CLASSIFICATION OF MUTUAL FUNDS

1. Open-ended schemes: In case of open-ended schemes, the mutual fund continuously offers to sell and repurchase its units at net asset value (NAV) or NAV- related prices. Investors can enter and exit the scheme any time during the life of the fund. Open-ended schemes do not have a fixed corpus An investor can enter the fund again by buying units from the fund at its offer price. Such funds announce sale and repurchase prices from time-to-time. The key feature of open-ended funds is liquidity.

2. Close-ended schemes Close-ended schemes have a fixed corpus and a stipulated maturity period ranging between 2 to 5 years. Investors can invest in the scheme when it is launched. The scheme remains open for a period not exceeding 45 days. Investors in close-ended schemes can buy units only from the market, once initial subscriptions are over and thereafter the units are listed on the stock

3. exchanges where they can be bought and sold. If an investor sells units directly to the fund, he cannot enter the fund again, as units bought back by the fund cannot be reissued. The close-ended scheme can be converted into an open-ended one. The units can be rolled over by the passing of a resolution by a majority of the unit--holders.

PORTFOLIO CLASSIFICATION- CLASSIFICATION IS ON THE BASIS OF NATURE AND TYPES OF SECURITIES AND OBJECTIVE OF INVESTMENT

1. A debt fund is a Mutual Fund scheme that invests in fixed income instruments, such as Corporate and Government Bonds, corporate debt securities, and money market instruments etc. that offer capital appreciation. Debt funds are also referred to as Fixed Income Funds or Bond Funds.

2. An equity mutual fund invests largely in the stocks of various companies to generate returns. Equity fund investments are linked to higher risk as compared to other types of mutual funds. Moreover, equity funds are 'not one size fits all'. There are a variety of equity funds classified by their investment objective that need to be mapped to your risk profile.

3. The Special Funds are those kinds of mutual funds that can neither be categorized as equity funds nor as the debt funds. These funds are unique and work well for those investors who have specific financial objectives

Some of the special funds includes:

- Index Funds
- Internaltional Funds
- Sector Funds
- Money Market Funds
- Fund of Funds
- Gold Funds.....etc.

Ownership Classification of Mutual Funds

1. Public mutual funds, as their name suggests, are open to the public to invest in. They are managed by professional fund managers, who actively invest in various securities to achieve the mutual funds' stated objectives, which could be capital growth or income. A public mutual fund can be an index fund, a stock fund, a bond fund or a money market fund.

2. Private mutual funds are an exclusive investment with a limited number of investors. The minimal investment for a share of a private mutual fund is much higher than that of a public mutual fund. Depending upon the number of investors in a private mutual fund, there is little or no government regulation. Private mutual funds, including hedge funds, tend to be more leveraged than public mutual funds. It is common for private mutual funds to use

financial derivatives, repurchase agreements and additional borrowing methods. Private mutual funds tend to be based out of the United States and subject to the host nation's rules governing private mutual funds.

3. Foreign funds offer individual investors access to international markets. International investing poses risks, but it can also help investors diversify their portfolios. International funds can help investors broaden their investment horizons, resulting in a higher potential for return.

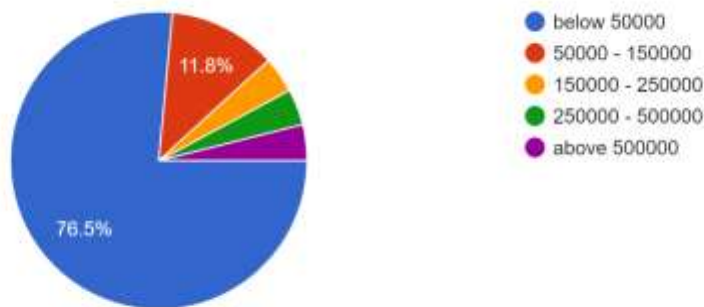
Findings and Analysis

To collect data and information, we prepared an online questionnaire through Google forms. We collected responses from 51 respondents and the responses that we got are analyzed below:

The age groups of most of the respondent was 22 to 26 years and the remaining varied from 16 to 66 years.

We also asked them about their income level and 76% of the people answered that their income level was below Rs.50000. 12% of the respondents had income level between Rs.50000 to Rs.150000 and the remaining varied from Rs.150000 to above Rs.500000.

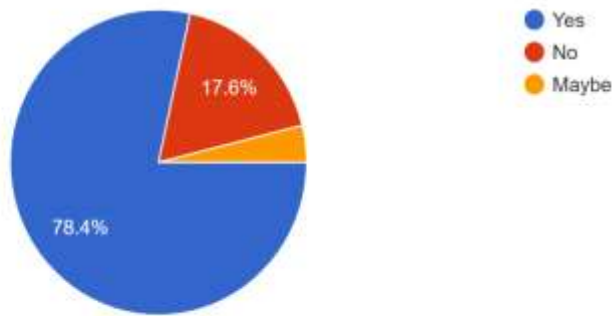
Income level
51 responses



We collected responses asking them if they were aware about Mutual Funds and we found that 78% of them were aware about it and the remaining did not know about it.

Are you aware about Mutual Funds?

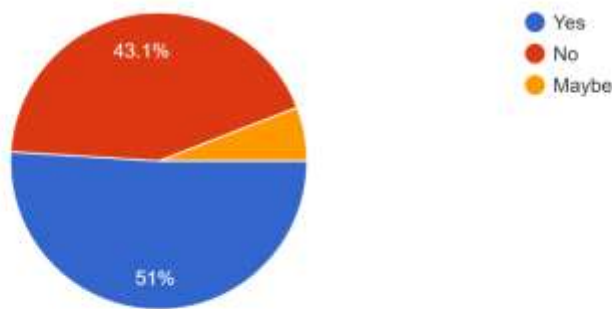
51 responses



We enquired the respondents if they invested in mutual funds and we found that 51% of them invested in it and remaining 43% of them did not any interest in mutual funds and investing in mutual funds.

Do you invest in Mutual Funds?

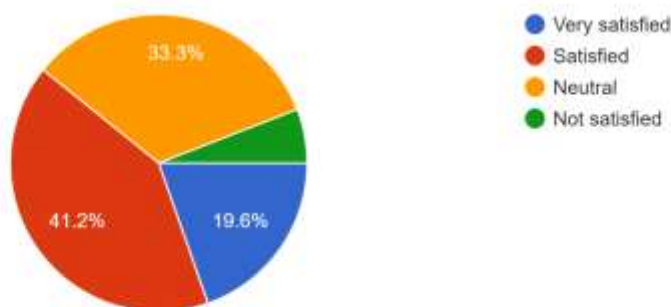
51 responses



The next question that we asked them was if they were satisfied with returns that they got from the mutual funds. It was good to know that about 61% of the respondents were satisfied with the returns and only 39% of them found the returns from mutual funds to be unsatisfactory.

Are you satisfied with the returns you get from the Mutual Funds you invested in?

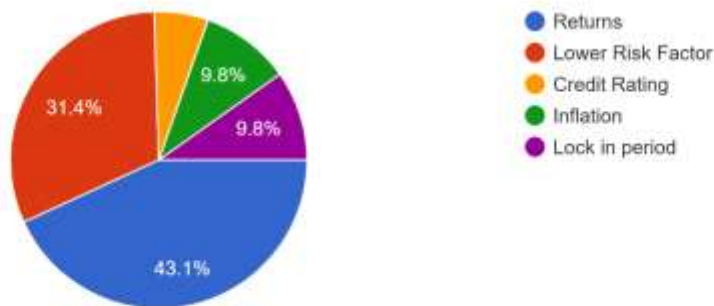
51 responses



During the research, we found that the most important parameter that the respondents looked over before investing in Mutual Funds is the returns that they receive from them. About 43% of the people invested in mutual funds keeping rate of returns in consideration. 31% of the respondents considered lower risk factors of the mutual funds as the most important parameter for investing. 10% of the respondents considered inflation as an important parameter, 10% of them considered lock in period as an important component of investment in mutual funds and remaining 6% of them considered credit rating as the most important parameter of investing in mutual funds.

What do you consider the most important parameter for investing in Mutual Funds?

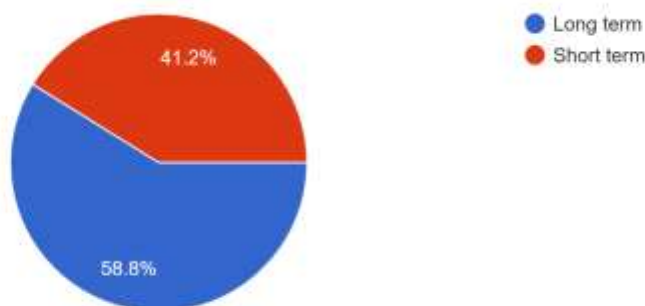
51 responses



Most of the respondents invested in Long term Mutual Funds. About 59% of them invested in long term mutual funds and remaining 41% of them invested in Short term Mutual Funds.

Which Mutual Fund did you invest in?

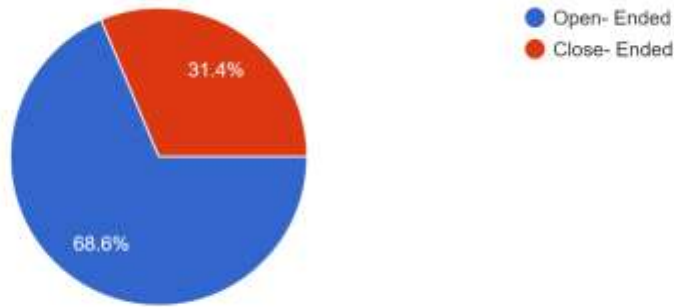
51 responses



About 69% of the respondents invested in Open-ended Mutual funds and the remaining 31% of them invested in Close-ended Mutual Funds.

Which type of scheme do you prefer to invest in?

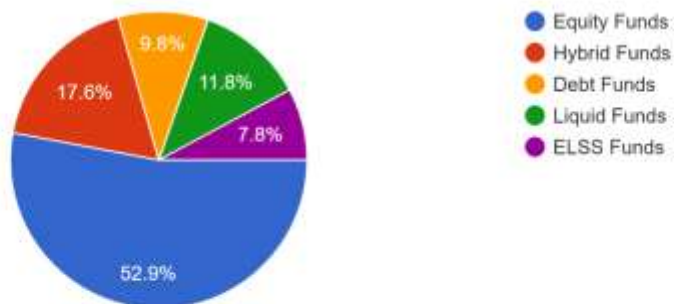
51 responses



Most of the people who have been investing in Mutual Funds, have invested in Equity Mutual Funds i.e. about 53% of the respondents. 18% of them respondents ivested in Hybrid Mutual Funds, 10% of them invested in Debt Mutual Funds, about 12% of them invested in Liquid Mutaul Funds and the remaining invested in ELSS Mutual Funds.

What type of scheme have you invested in?

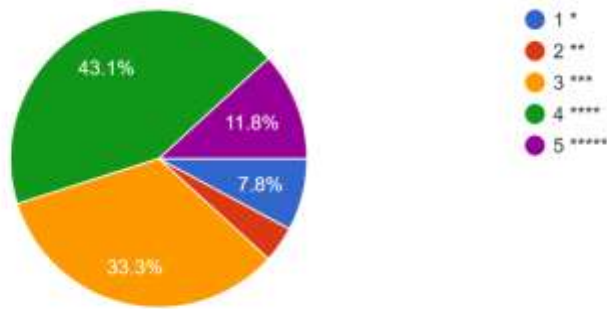
51 responses



Finally, we asked the respondents to rate their overall experience of investing in Mutual Funds on the scale of 1 to 5 star where 5 stars means maximum satisfaction and 1 star means minimum satisfaction. About 12% of the respondents rated mutual funds with 5 stars. 43% of them rated 4 stars, 33.33% of them rated 3 stars, about 4% rated 2 stars and the remaining 8% of them rated it with 1 star.

Rate your overall experience of investing in mutual funds

51 responses



Conclusion

According to my study, I found that a good population is interested in investing in Mutual Funds and those who invest are mostly do invest in Long term mutual funds with keeping Equity Funds Investments as their choice of investment. Most of the people who invested in the mutual funds were satisfied with the returns of it and they invest keeping returns from mutual funds as the most important parameter of investing. Most of the people investing in mutual funds were very satisfied with their overall experience.