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Assessment of benefits of mutual funds in India

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Abstract

At present Small Scale Investments, mutual funds have taken time in coming to India and dominant feature for the last several years in the investment markets in the west and in the country of their origin, in USA they have become as ancient as money itself. The Unit Trust of India having dominated the scene as the only institution of its kind all this time. After two decades of UTI monopoly some public sector organizations like LIC (1989), GIC (1991), SBI (1987), Can Bank (1987), and India Bank (1990) have been permitted to set up mutual funds. The research provides higher and better average return than the market. In India Opportunities Fund is the best performer with higher average return and lower risk, it is good for investors.

Keywords: mutual funds, LIC, return, organizations

Introduction

Investors invest in mutual funds have common financial goal and their money is invested into different classes of assets according to the fund investment according to aim. Investors is a trust having sponsor, trustees and AMC (Asset Management Company). Mutual Fund is managed by AMC approved by SEBI by making investment into different types of schemes. In India the origin of Mutual Funds industry can be traced since the enactment of UTI (Unit Trust of India) Act, 1963. Mutual funds are one of the best investments ever created because they are very cost efficient and very easy to invest in. Thus the Rupee is generated in the form of big returns to promote financial excellence. Mutual fund enables investor to manage their funds without paying high fees for it. It enables investors to make complicated investment decisions easily.

Review of Literature

Dr. Vikaskumar (2011) [2] analysed of the open ended schemes shows that out of twenty five schemes namely Reliance Growth Fund, Reliance Vision Fund, ICICI Prudential Tax Plan, HDFC Top 200 and Birla Sun Life Equity Fund, performs better in comparison to benchmark index BSE-100 index in terms of monthly average return and risk involved in these schemes less then benchmark. Somashekar (2009) [3] in his study empirically examines the role of SEBI in governance of mutual funds in India by comparing the performance of SEBI governed funds with that of being governed by UTI. The study finds that the mutual fund governance attributes to the superior performance of the industry. Mutual funds are popular because they make it easy for small investors to invest their money in a diversified pool of securities. As the mutual fund industry has evolved over the years, there have arisen many questions about the nature of operations and characteristics of these funds. Thus the fund evaluation process helps the investors to know more about the funds and its performance (G. Brindha 2014) [1].

J.S. Yadav *et al.*, 2012 [4] analysis of comparison between Mutual Funds and Foreign Institutional Investors, it was found that though the India is an attractive destination for investment by Foreign Institutional Investors, investments made by the mutual funds were greater than investment made by FII's, during the recession MF industry has played a vital role in pushing the economy upward while FII's withdrew their investment, showing the importance of MF's in Indian economy. Dunna (2012) examined various challenges and opportunities for the mutual fund industry since its inception and found that various financial and economic reforms has given wave of opportunities to the industry.

Beginning of mutual founds in India

The Beginning of the mutual funds growth in India different phase from 1964-1987 in which UTI was established in the year 1963 under the act of the parliament by RBI (Reserve Bank of India) and governed under the Regulatory and administrative control of the Reserve Bank of India. In 1978 IDBI (the Industrial Development Bank of India) took the control in place of RBI. By the end of 1988 UTI has Rs. 6700 crores of AUM. The next phase has its mark from 1987-1993 where public sector banks and LIC (Life Insurance Corporation of India) entered into the mutual funds industry. Non UTI mutual fund was SBI mutual fund established in June 1987 followed by PNB mutual fund, Indian Bank mutual fund, Bank of India, Bank of Baroda. LIC established its first mutual fund in 1989 whereas GIC established it in the year 1990.By the end of 1993, AUM with the mutual fund is Rs.47004 crores.

Mutual funds in India

- Monopoly by Unit Trust of India
- Entry of Commercial Banks.
- Launch of variety of schemes
- Tie up arrangements with foreign collaborators
- Entry of Private Sector Preferred as an avenue of investment.

There are many types of mutual funds like equity funds, bond funds, balanced funds, growth funds, income funds, tax saving funds, country funds, index funds, exchange traded funds, sector funds etc.

Based on Maturity Period

1. **Open Ended Fund:** Available for subscription throughout the year and can be redeemed on a continuous basis.
2. **Close Ended Fund:** A definite maturity period for 3-6 years
3. **Interval Fund :** Combines the feature of both open ended and close ended mutual funds

Based on Investment Objective

1. **Equity/Growth Fund:** Long term growth funds
2. **Debt/Income Fund:** Short term liquid funds.
3. **Balanced Fund:** Invests in both equities and fixed income instruments.
4. **Money Market/Liquid Fund:** Invests in short term instruments like T-bills, Certificate of Deposits and Commercial Paper for a period of less than 91 days.
5. **Gilt Fund**: Invests exclusively in Government securities.

Other Schemes

1. **Tax Saving (Equity Linked Savings Schemes) Funds**: Growth oriented schemes invests mainly in equities and provide tax rebate to the investors under income tax provisions, 1961.
2. **Index Funds:** Invests in specific indices like BSE Sensex, S&P CNX Nifty
3. **Sector specific Fund:** Invests in specific sector or industries like FMCG, IT, Pharma, Automobile etc

Benefits of mutual fund

Mutual fund industry offer various advantages to the investors specially to the small and the retail investor as it mobilizes the hard earned money of the investors and deploy them in a diversified portfolio. Mutual Funds provide the benefits of diversification across different sectors and companies. Mutual Funds are generally very liquid investments unless they have pre-specified lock in period. Mutual funds enable investors to invest a small amount into a variety of instruments. It enables the investors to manage their fund effectively and efficiently with the help of an expert and by reducing the portfolio risk by diversification. In India Mutual Funds are regulated and governed by SEBI (Securities and Exchange Board of India), which protects the interest of investors. All the funds are registered with SEBI through which complete transparency is enforced. Mutual funds provide investors with standard information about their investments along with the disclosure regarding specific investments and the quantity made by the scheme. Mutual funds update investors regularly regarding the market and investment schemes through factsheets, offer documents and annual reports etc.

The advantages of investing in a Mutual Fund are:

- Professional Management
- Diversification
- Convenient Administration
- Return Potential
- Low Costs
- Liquidity
- Transparency
- Flexibility
- Choice of schemes
- Tax benefits
- Well regulated

Investors purchase mutual fund shares from the fund itself (or through a broker for the fund) instead of from other investors on a secondary market, such as the New York Stock Exchange or Nasdaq Stock Market.

- The price that investors pay for mutual fund shares is the fund's per share net asset value (NAV) plus any shareholder fees that the fund imposes at the time of purchase (such as sales loads)
- Mutual funds generally create and sell new shares to accommodate new investors. In other words, they sell their shares on a continuous basis, although some funds stop selling when, for example, they become too large.
- The investment portfolios of mutual funds typically are managed by separate entities known as "investment advisers" that are registered with the SEC.

Conclusion

The research focus to the investor's behavior in a market like India, due to the increasing of competition day by day, as large number of players with different financial strengths and strategies have entered in the Market. In India best investment source of Mutual funds are available for Indian small investors to make an investment, if thoroughly assessed it may give big returns with little savings. The above performance ratios are very much helpful for the evaluator to assess the fund's performance. As the Mutual Fund investment is subject to market conditions, therefore for the risk averse investors there are so many other investment alternatives available apart from the mutual funds, such as investment in other Financial Assets (stock market, debentures, Bonds, Treasury bills etc) and other Non-Financial Assets (post office certificates, Bank deposits, Pension schemes, Real estate's) to avoid risk.

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