A Study on Mutual Funds –What are they and their Future

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***Abstract* - Capital market plays a major role in the Indian financial system. So, Equities & mutual funds are part of the capital market. Mutual fund industry in India began with the setting up of Unit Trust of India (UTI) in 1964 by the government of India. Nowadays mutual funds are playing a very important role in the industry. Investors will get the benefit of return, capital appreciation, tax benefits and safety to their investment and companies will get the capital for their growth. Recently they have also started a Systematic Investment Plan(SIP) with the help of this even small investors (minimum of Rs. 100)can start investing, by this even students can also invest in this fund. So, we came to know how this mutual fund works. The saving of an individual are spread through different means of investment one of them is mutual fund which is a growing investment now a days because of diversified risk and lack of time to look after their money.**

***Index Terms* – SIP, STP, Growth Option, Mutual Funds.**

INTRODUCTION

In the financial market many investment avenues are available for the investors. Investors can invest in bonds, gold and fixed deposits etc., there will be high risk and low returns. So, investors may invest in the stock market companies where the returns are high with higher risk levels.

Mutual funds are pools money of group of individual investors to earn profits on their investments in such a period through the funds that are managed by investment professional known as funds manager or portfolio manager

Mutual funds are a viable alternative option for investments. The Fund manager selects the top investment companies which are regulated under SEBI(Securities Exchange Board of India).we may have heard that "don't put all eggs in one basket" by this saying the fund manager makes the investments into different stock market companies. Mutual funds are the specific objective for many individuals.

Investors who do not have knowledge and time to analyze stock market investments for the mutual risks with the SIP [systematic investment plan] it was offered by the mutual funds to investors' availability of investing small amounts how much investors want to invest that periodically instead of lump sums.

Mutual funds provide the low risk and higher benefits of cheap access to expensive stocks through the fund managers. Mutual funds pool money from a group of individual investors to raise a source of income, its most suitable investment for common man and it offers investment opportunities in professionally managed securities at low cost.

OBJECTIVES OF THE STUDY

- To identify the most demandable scheme of the mutual fund.
- To identify the risk & return involved in mutual funds.
- To find whether investments are better in mutual funds.

RESEARCH METHODOLOGY

COLLECTION OF DATA
SECONDARY DATA
Secondary data is the already available information collected by someone hence for their own study purposes and it is the published sources of information. The secondary data sources gor this study purpose are:
Text books
Website
Documents & Materials

REVIEW OF LITERATURE

Vincent A. Warther (1995) in the article entitled "aggregate mutual fund flows and security returns" concluded that aggregate security returns are highly correlated with concurrent unexpected cash flows into MFs but unrelated to concurrent expected flows. The study resulted in an unexpected flow equal to 1 percent of total stock fund assets corresponding to a 5.7 percent increase in stock price index. Fund flows are correlated with the returns of the securities held by the funds, but not the returns of other types of securities. The study found evidence of positive relation between flows and subsequent returns and evidence of a negative relation between returns & subsequent flows.

DEFINITION

According to the Securities Exchange Board of India (Mutual funds) Regulations, 1993, "Mutual funds as a fund established in the form of a trust by a sponsor, to raise money by the trustees through the sale of units of the public , under one or more schemes, for investing in securities in accordance with these regulations

HISTORY OF MUTUAL FUNDS

India's first mutual fund was established in 1963, namely, Unit Trust of India (UTI). It is an initiative of the Government of India and Reserve Bank of India for encouraging savings and gaining income.

History of Mutual Funds in India broadly divided into five phases:

Frist phase 1964-1987

Establishment of Unit Trust of India (UTI), in 1963 by an Act of parliament. It was set up by the Reserve Bank of India. UTI was de-linked from the RBI. It was taken over by Industrial Development Bank of India regulatory and took the place of RBI. The first unit scheme (US-64) launched by UTI. Many innovative schemes were launched by UTI in the 1970s and 80's. It launched ULIP (Unit linked Investment plan) scheme in 1971.UTI had 6,700 corers Assets under Management (AUM) by the end of 1987.

Second phase 1987 - 1993

In 1986 Government of India Allowed commercial banks in the public sector to set up mutual funds and also Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). In 1987 June first non-UTI mutual fund was established, SBI (State Bank of India). And followed by Can bank Mutual Fund (Dec. 1987). Punjab National Bank Mutual Fund (Aug. 1989). Indian Bank Mutual Fund (Nov. 1989). Bank of Baroda Mutual Fund (Oct. 1992). Mutual Funds had 47,004 corers Assets under Management (AMU) by the end of 1993.

Third phase 1993 – 2003

In April 1992 Establishment of SEBI [Securities Exchange Board of India]. The Indian securities market gains importance to protect the interests of the investors and promote the regulations and development of the securities market. In the year of 1993 SEBI started the first setup of mutual funds, except UTI. In July 1993 first private sector mutual funds were registered with Franklin Templeton. Here a new era of mutual industry was started. The initial SEBI Mutual Fund Regulation was revised and replaced in 1996 with a set of regulations.., SEBI REGULATIONS (mutual fund). At the end of January 2003, total AUM with 33 mutual funds of 1,21,805 crores out of UTI alone had AUM of 44,541 crores.many number of foreign mutual funds are set up to increase and India also witnessed several mergers and acquisitions.

Fourth phase 1996 – 2004

Mutual Fund industries witnessed growth and strict regulations from SEBI after 1996. In February 2003 repeal of UTI Act 1963, UTI was divided into two separate entities viz. The Specified Undertaking of the Unit Trust of India (SUUTI) and Unit Trust of India mutual funds; these are works under SEBI Mutual Fund Regulation.

Interests of investors are safe guarded by SEBI and the government offered tax benefits to the investors. For the encouraging of investors SEBI Regulation introduced set of uniform standards and launched awareness programmers and Association of Mutual Fund on India (AMFI)

Fifth phase 2004 – 2014

There were 29 funds as at the end of March 2006. At the end of December 2006, there were 32 funds which managed assets of Rs.323597 corers under 75 schemes as compared to assets worth Rs.47000 corers under management in March 1998. Assets under Management of mutual funds (in all schemes) from April 2007 to December 2007 were Rs 542794.36

corers. This does not include Net Assets of Rs.7141077 corers under exchange traded funds (ETF). (Source: Report of Investment Management Department, SEBI) Besides, low interest rate, tax holidays on some schemes, excellent performance of the stock market has contributed to the growth of Mutual Fund. But the penetration of Mutual Fund in the retail investors segment is still low at 6% of GDP against 70% in the US. Active participation of the retail investor will further boost the Mutual Fund industry in India. Today the industry is pre – dominantly urban and to some extent semi – urban. The Mutual Fund industry must tap the huge untapped potential in the country.

TYPES OF MUTUAL FUND SCHEMES

BASED ON STRUCTURE

OPEN ENDED FUNDS:

Open ended funds are available throughout the year for the subscription. These funds do not have a certain fixed maturity period. Investors can conveniently buy and sell units as per Net Asset Value (NAV) prices.

CLOSE ENDED FUNDS:

Close ends are unlike open ended funds these are available in some specific maturity time period. Once the new fund offer period ends investors cannot purchase or redeem the units of a closed ended fund.

INTERVAL SCHEMES:

It's actually like a close -ended scheme with a feature that every for a specific interval period it's made open. In that specific period a mutual fund is ready to buy or sell directly from or to the investors.

BASED ON INVESTMENT

GROWTH SCHEME:

Growth funds aim is to provide appreciation of capital over the long term and medium term. These investments are made in growth oriented schemes. These schemes provide different options like capital appreciation and dividend option.

BALANCE SCHEME:

Its aim is to provide capital appreciation as well as current income. As per the document it involves investment in equity and fixed income securities.

INCOME SCHEME:

The income scheme's main aim is to provide income to the investors. It is involved in investments like bonds and fixed securities and corporate debentures. These schemes have low risky investments.

MONEY MARKET:

It's an open ended mutual fund that invests in short term securities and commercial papers. Its main aim is to manage the asset value through liquid investments.

OTHER SCHEMES

TAX SAVINGS:

To provide tax incentives this scheme will be floated. A tax saving fund is called an Equity linked savings scheme.

SECTOR FUNDS:

Sector fund is the investments of the investors in business related to the same industry or sector.

INDEX FUNDS:

Index funds are investments in diversified market indexes. The main aim is to match the performance of the stock market by tracking an index that represents the overall market.

GILT FUNDS:

These funds have little risk of default, as there is no credit risk involved. These investments in government securities since the issuer are the government of state or India.

DATA ANALYSIS AND INTERPRETATION

CURRENT PORTFOLIO	NUMBER OF RESPONDENTS	PERCENTAGES %
Govt. securities and bonds	30	30%
mutual and fixed deposits	52	50%
Equity	13	15%
Other options	4	5%

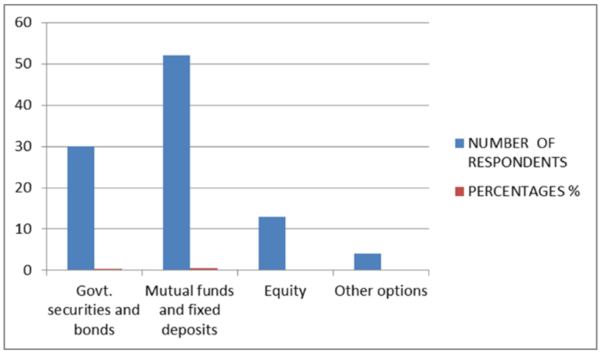

FIGURE - 1

INTERPRETATION

The above chart shows that a higher percentage of respondents are interested in investing in less risky mutual fund schemes because of mutual fund fixed deposits, and a minor percentage of the respondents are interested in investing in other options.

AWARENESS OF MUTUAL FUND	NUMBER OF RESPONDENT	PERCENTAGES%
YES	75	75%
NO	25	25%
TOTAL	100	100

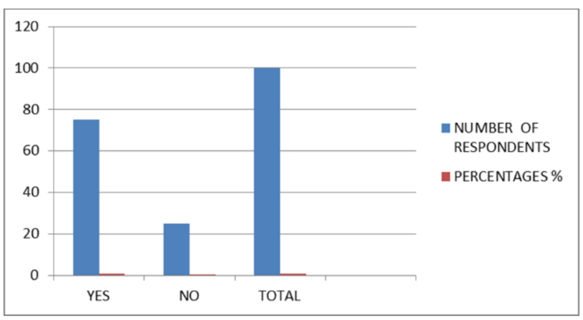

FIGURE -2

INTERPRETATION

The above table shows mutual fund awareness of respondents out of 100%. Most of them know about the mutual fund. 75% of the respondents have knowledge about mutual funds. Only a few people are not aware of mutual funds i.e. only 25%.

FINDINGS

- Investors are mostly likely to invest in the mutual funds rather than the other securities
- Investors choose the less risky mutual funds schemes.
- Most of the respondents have the knowledge about the mutual funds and have the knowledge about how to invest in it.

CONCLUSION

Mutual funds are a promising investment avenue for wealth creation. There are a variety of mutual fund schemes, choose yours wisely in the journey of wealth creation. Take into consideration your age, risk profile, investment objectives, financial goals, and the time origin before the goals befall.

So, do not mirror our friends, relatives, or next door neighbors' portfolios; because one man’s meat is poison to another man. Investing is personal and individual.

REFERENCE

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