The Capacity and Significance of Investments in Mutual Funds for the Investors in India

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Abstract: *Over the past decades mutual funds have grown intensely in popularity and have experienced a substantial rate of growth. In today's world a major role in the investment pattern is played by the mutual funds. People are interested to have investment in any forms and majority of the people prefer to have investment with less risk. The mutual fund is the solution as most of the times the investor can invest less amount and also at less risk. A mutual fund which is also called as an investment trust is an investment vehicle which pools the cash of many investors. Money invested in mutual funds is managed by fund managers who are up to date with all the market happenings and are adept at optimizing returns. The fund managers are the people who take full care of the money which is invested in the mutual funds. The fund's manager uses the cash collected to get securities like stocks and bonds. The securities purchased are mentioned as the fund's portfolio. Mutual funds have been the foremost favoured investment choice for the small investors since its rise. It provides a steady return. The customer has to invest some amount with some professionals and they take rest without thinking its loss. Hence the study of mutual fund has been equally necessary in today's situation because it is tends to posses genuine financial investment. This article attempts to generate the significance, role and knowledge about mutual funds.*

Key words: Equity Fund, Industry, Investment, Money Market, Mutual Funds, Securities.

INTRODUCTION

Common pools of cash into which the investors place their contributions that are to be invested in different types of securities are mutual funds. Shareholder in Mutual Funds is a part owner of the fund's asset. Mutual funds are a preferred investment avenue for a majority of customers. They help in diversifying the investments wherein investments are managed by professional fund managers and who are updated with all the market happenings or spend tons of time on doing research on each stock. Investors purchase shares within the mutual fund as if it had been a private security. After paying operating costs, the earnings in the form of dividends, capital gains or losses of the mutual fund are distributed to the investors, in proportion to the amount of money invested. Investors hope that a loss on one holding is going to be made up by a gain on another.

Mutual funds raise money from various investors for the purpose of achieving their investment goals. In mutual funds, money invested in various securities depends on the objectives of the investor and the scheme. The investors of the mutual funds are called as unit holders. The profits and losses from their investments are shared by its unit holders in proportion to the number of units owned by them. A mutual fund is registered under Securities and Exchange Board of India (SEBI) before it can collect funds from the public. The consolidation phase of the Indian mutual fund industry has continued in recent months. It is growing rapidly and receives more investment from investors. A joined unit of mutual fund owners is called a portfolio. Each unit represents the proportionate ownership of a fund owned by an investor and the income owned by that fund.

The mutual fund industry has made some changes in recent years when multinational companies with investment management experience have come to India. Mutual funds are currently a growing industry in India. Mutual funds are weak and may not be suitable for everyone. There no risk-free investments. If the overall stock market falls, the value of mutual fund will fall, regardless of the balance of the portfolio. Low-risk investors are advised to invest only in mutual funds, especially

balanced ones and money market funds such as buying and selling their own shares. When an investor invests in mutual fund, the fund must make the right decision about the fund's portfolio. Many people do not have much knowledge about mutual funds.

Heeding the adage which says "Don't put all the eggs in one basket" the holders of mutual fund shares are able collectively to realize the advantage by diversifying the investments, which might individually be beyond the financial means. A mutual fund could also be either an open-end or a closed-end investment company. The number of shares differs as investors buy or sell their shares. Investors are ready to buy and sell their shares of the corporate at any time for a market value. Equity Instruments like shares are solely a locality of the securities control by mutual funds. Mutual funds additionally invest in debt securities that are comparatively safer. Mutual Funds are the simplest answer for those that wish to manage risks and find sensible returns.

Money invested in mutual funds is managed by fund managers who are up to date with all the market happenings and are adept at optimizing returns. The fund managers are the people who take full care of the money which is invested in the mutual funds. The customers who are investing are having full belief that they will get a good amount as return. And most of the times it turns out to be true also. The professional job is to get maximum return with minimum investment and they work for this with full attention. A mutual fund may be a managed group of owned securities of several corporations. These corporations receive dividends on the shares that they hold and realize capital gains or losses on their securities traded.

Mutual funds do not demand big investment. Anyone can start the investment in mutual funds with a smaller amount. So it helps even the normal people to invest in the market. It attracts more customers who earn less income. The customers need not follow all the happenings in the market. If customers are interested then they can have an eye on the market. Otherwise invest the amount and just forget about the money invested. All the activities like diversifying the amount is done by the fund managers itself. So it helps the customers to save their time. Many mutual funds help in saving tax. Most people invest in mutual funds because it gives tax saving as well as good return. The customers are saving the return it also helps them to save tax as well. But the tax benefit is not for all the mutual fund schemes. It is available for some specific schemes. One can buy and sell units at NAV (Net Asset Value) on a daily basis in all open ended schemes. Mutual funds give a good return most of the times when depositing the amount for a longer fixed term. But the liquidity is much easier than all the other funds or investments.

HISTORY OF MUTUAL FUNDS

Mutual funds were first introduced in Belgium in 1822. This form of investments soon spread to Great Britain and France. Mutual funds became known to people by 1920s and became popular from 1930s, especially open-end mutual funds. Mutual funds experienced a period of tremendous growth, especially in 1980s and 1990s. LIC established its open-end fund in June 1989 while GIC had found out its open-end fund in December 1990. With the entry of personal sector funds in 1993, a replacement era started within the Indian mutual fund industry, giving the Indian investors a wider choice of fund families. Also, 1993 was the year during which the primary open-end fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. Phases of mutual funds in India is as follow:

Phase I: 1964-87: In 1963, UTI was got wind of by Parliament beneath UTI act and given a monopoly. The primary equity fund was launched in 1986.

Phase II: 1987-93: Non-UTI, Public Sector mutual funds like SBI open-end fund, LIC open-end fund, Indian Bank open-end fund, GIC open-end fund and PNB open-end fund.

Phase III: 1993-96: Introduction of non-public sector funds further as open finish mutual funds.

Phase IV: 1996 onwards: Capitalist friendly restrictive measures Action taken by SEBI to shield the capitalist, and to boost investor's returns through tax edges.

GROWTH AND DEVELOPMENT OF MUTUAL FUNDS IN INDIA

Investors now have access to many investment opportunities in the financial markets. Investors can

invest in corporate bonds, bank deposits, postal systems etc. Many institutions now offer asset management services to investors. But this service is very expensive. Mutual funds protect small and large investors to invest their money in financial market. Investors should compare risk and expected returns after tax adjustments. Investors can consult with experts on investment decisions on various products.

The Mutual funds industry that started its journey within the country in 1963 has turned together of the important constituents of the financial sector. The industry has witnessed sufficient expansion and standardization in terms of products and services offered, regulatory mechanism, and therefore the proliferation of huge number of personal sector funds both domestic and foreign. The very fact is the fund market within the country has graduated from offering plain vanilla equity and debt funds, to an array of diverse products like Gold Funds (GF), Exchange Traded Funds (ETFs), and capital protection oriented funds and even the native funds (Fozia, 2013). Truly, the open-end fund industry within the country has come from long-way and it realized its potential almost fully. There are as many as 44 AMFI (Association of Mutual Funds in India) registered fund houses in India which together offer quite 2,500 open-end fund schemes. The big selection of funds often makes it a touch difficult for investors to settle on the simplest scheme for them.

The growth that the mutual funds industry has achieved over a particular period of time in respect of the subsequent parameters:

Growth in number of funds:

As already stated that the primary open-end fund namely UTI was established in 1963 which dominated the industry within the country till 1992. With the entry of other public sector and personal sector funds, it gradually lost its dominance.

Growth in number of schemes:

Mutual funds offer family of schemes to suit varying needs of investors. The various schemes offered are classified on the idea of their structure (Liquidity) into open ended funds and closed ended funds. Supported the investment objective, these schemes are further classified into growth funds, balanced funds (Debt and Equity), income funds (debt) Tax saving, Gilt funds and market mutual funds.

Assets under management of mutual funds:

Mutual Funds are expected to play an important role of mobilizing particularly household savings and to manage the funds efficiently so as to provide sufficient return to the investors. Although, the Indian mutual funds need to go an extended way in its role play on the above referred lines, yet over a period of time it achieved some noticeable growth and development.

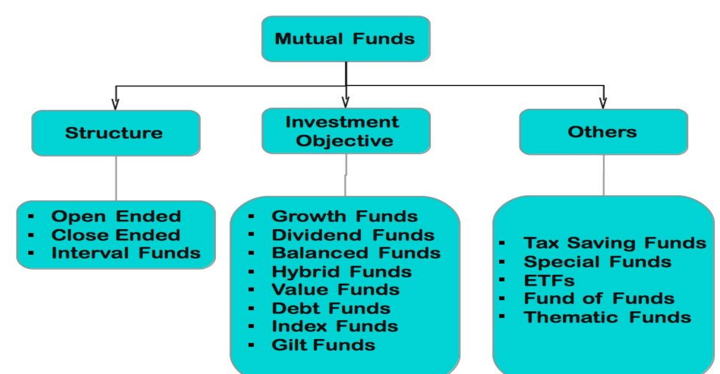
Mobilization of household savings:

Mutual funds belonging to public sector, domestic private sector and foreign private sector funds offering big variety of schemes and products to the investing public at the national and international level are many. Over a period of your time significant innovations are made in its product profile to satisfy the numerous needs of the investing public.

Launching of new schemes:

Launching more and more new schemes are aimed toward meeting the numerous needs of the investing public so as to mobilize more funds. Intrinsically launching new schemes serves the aim of such schemes to mobilize more and more funds.

Types of Mutual Funds



MUTUAL FUND PROSPECTUS

The prospectus is a legal instrument that has information about the mutual funds. In this document information about the terms of the offer, the issuer, and its objectives is provided. In the aftermath of the 1929 stock exchange crash the federal within the Securities Act of 1933 required

security companies to publish a prospectus. The information within the prospectus is typically lengthy, full of tables and graphs, and written in technical and legal language. This document is provided to assist investor and create an informed investment decision before investing in mutual funds.

To gain the essential information the customer has to pay close attention to the subsequent key sections:

Investment Objective: A brief statement of the fund's investment objectives. Some funds shall achieve short-term growth while others specialise in long-term stability.

Investment Strategy: What is exactly the fund plans to accomplish the objectives. This section describes the kinds of assets that the fund purchases.

Fees and Expenses: Although mutual funds aim to form money for his or her investors, their ultimate goal, like any other business, is to make money for themselves. In order to try to do so, funds charge their shareholders a spread of fees and expenses, all of which must be documented within the prospectus. A table at the front of each prospectus contains a breakdown of the various fees and expenses, along with a hypothetical projection of fees.

Account Information: This section contains very basic information about the way to buy and sell shares and other account-related information. In addition ways to urge money into the fund, also ways required for out of the fund. The prospectus will inform redemption methods available.

Risks: The level of risk that the fund takes and the risks that are associated with the specific investments made by the fund are one of the most important sections in the prospectus.

Performance: The fund's performance information over the last 10 years is included. Investors should remember that past performance is not necessarily an indicator of future results. It is important is know how well the fund has traditionally performed compared to an index. A fund's performance is additionally associated with the fund's volatility, dividend payments, and turnover.

Management: The names of the managers and a few additional information about their experience and qualifications are reported. It are often helpful to understand whether or not they need managed other funds within the past and their success or failure so as to urge a way of their past strategies and results.

PROFESSIONAL MANAGEMENT & RANKING OF MUTUAL FUNDS

Professional management: Mutual funds use professional managers to form the choices regarding which companies' securities should be bought and sold. The managers of the mutual funds decide how the pooled funds are going to be invested. Investment opportunities are abundant and complex. Fund managers are expected to know what is available, the risks and gains possible, the cost of acquiring and selling the investments, and the laws and regulations in the industry.

Ranking: Funds are ranked based upon their performance as an entire and performance against their peers by recognized scoring system for mutual funds. They have a one-to-five star system during which five stars is that the best. Usually the upper the rank, the upper the standard of the fund. For instance Morning star rates mutual funds from 1 to 5 stars based on how well they have performed (after adjusting for risk and accounting for sales charges) in comparison to similar funds. Within each Morning star Category, the highest 10% of funds receive 5 stars and therefore the bottoms 10% receive 1 star. Funds are rated for upto 3 time periods: three, five and ten years and these ratings are combined to supply an overall rating. Funds with three years of history are not rated. Ratings are objective based and depend on a mathematical evaluation of past performance. The ratings are a useful gizmo for identifying funds deserves further research, but should not be considered signals to shop for or sell.

Mutual fund annual report: Annual Report of mutual funds is sent each year to every investor. This Annual Report contains a list of the fund's financial statements, a list of the fund's securities, and explanations from the fund's management as to how and why the fund performed as it did for the previous year.

OPERATIVE WORKING OF MUTUAL FUNDS

Mutual funds are created when several people who wish to earn wealth (investors) combine their resources to make an enormous investable amount (corpus). This large corpus is then invested into various companies across industries, operating in several sectors of the economy, counting on the sort of fund chosen. All the investors of a mutual fund share in its profits, losses, incomes, and expenses in direct proportion to their level of investment. Companies which create mutual fund schemes are referred as Fund Houses or Asset Management Companies (AMCs). The Fund Managers are professionals who study the markets and pick companies to take a position in the market. Fund managers spend an excellent deal of time analysing markets and studying different sectors of the economy to work out which companies are presumably to show a profit in several time frames and choose the simplest option. There are thousands of mutual funds in India, under different categories, offered by many AMCs and Fund Houses. Global agencies exist for fairness and transparency to analyse and rate the performance of funds over time and confirm that investors are well informed before investing. It is mandatory for AMCs to declare a typical against which the performance of any given fund is often measured. This is called as benchmark. There are regulatory bodies like AMFI and SEBI that ensure no investor ever gets scammed.

Different sorts of mutual funds operate slightly differently from each other, but all of them have some basic principles on which they operate that outline them as mutual funds. The most basic way during which mutual funds operate is explained below:

1. An asset management company (AMC)/fund house identifies a possible earning possibility within the market and calculates the danger and potential reward involved during this particular investment.

2. The AMC studies other related investment opportunities that would boost the worth of or make sure the success of the most opportunity.

3. The fund manager working for the AMC picks and chooses different investments so as to balance out the danger and total earning potential, balancing the proper high risk-high reward equities with high safety relatively consistent income securities.

4. All the small print about the fund including risk factors are well documented and presented to the industry body SEBI for regulatory approval and to the general public for consideration.

5. The fund scheme is formed available to the general public, who then invest the fund by purchasing fund units. More the fund units are purchased, the larger the investment, and the greater the proportion of potential income.

6. The investments are made and counting on the fund’s structure, the fund will either be passively or actively managed by a fund manager.

7. Under the dividend option, dividends declared are proportionally distributed to the investors. Under the expansion option, dividends are reinvested for capital appreciation.

8. At the top of the fund’s tenure, capital gains are paid to the investors.

ASCENDANCY OF MUTUAL FUNDS

Portfolio diversification: It permits the customer to hold a heterogeneous investment portfolio even with a quantity of investment like Rs. 1000/-.

Professional management: The investment management skills, the specified analysis on the investment choices guarantee a far higher income as compared to what the capitalist will manage on own.

Reduction or Diversification of Risks: The potential losses are also shared with alternative investors.

Reduction of dealing prices: The capitalist can get the advantage of economies of scale as the funds pay lesser costs thanks to larger volumes and it is passed on to the investors.

Wide choice to suit risk-return profile: Investors will select the fund supported their risk tolerance and expected returns.

Liquidity: Investors are unable to sell the shares directly within the market simply and quickly. Once they invest in mutual funds, they are going to

get money from their investment any time by marketing the units to the fund if it is open-ended and acquire the intrinsic worth. Investors will sell the units within the market if it is closed ended fund.

Convenience and Flexibility: Investors can transfer their holdings from one person to another and obtain updated market data then on. Funds also provide extra benefits like regular investment and regular withdrawal choices.

Transparency: Fund provides regular data to its investors on the price of the investments additionally to revelation of portfolio control by them. The proportion invested in every category of assets and also the fund manager's investment strategy and outlook is additionally very transparent for the customer.

FOIBLES OF MUTUAL FUNDS

Management over costs: The capitalist pays investment management fees as long as he owns the fund, even when the worth of his investments area unit declining. He conjointly pays for funds distribution charges that he would not incur in direct investments.

Non-tailored portfolios: The terribly high net-worth people or massive company investors might notice this to be a constraint as they will not be ready to build their own portfolio of shares, bonds and alternative securities.

Managing a portfolio of funds: Availability of an out-sized variety of funds will really mean an excessive amount of alternative for the capitalist. So, he needs advice and recommendation to choose a fund to attain his objectives.

Delay in redemption: It takes 3-6 days for redemption of the units and for the cash to flow back to the investor’s account.

CONCLUSION

Mutual fund organizations are needed to upgrade their skills and technology. With the structural liberalization policies, Indian economy is probably going to return to a high grow path in few years. Success of mutual funds however would bright depending upon the implementation of suggestions. With reference to the open-end fund investors are of the view that they must adopt two crucial skills for successful investing i.e. a way of timing and investment discipline both got to be adopted at an equivalent time. Investment in today’s era is enveloped with risks like business, credit, default, currency, interest rate, market etc. Mutual Fund allows investor to pool their money with which the investment manager would instigate investments and hence attempt to attain results as per the investor’s objectives. Diversification and SIP allows investor to manage the risks. Sponsor, Trust, Trustee, Transfer Agent, Asset Management Company etc. forms key element Mutual Fund structure. Moreover, with the investment in Mutual Fund the investor can avail tax benefits too.

It is concluded that Mutual Funds Prove Best! Whereas instruments like shares offer high returns at the worth of high risk. Instruments like agency and bank deposits offer lower returns and better safety to the capitalist. Mutual Funds aim to strike a balance between risk and income and supply the only of every to the capitalist.

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