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Performance and Analytical Study of Various Mutual Funds

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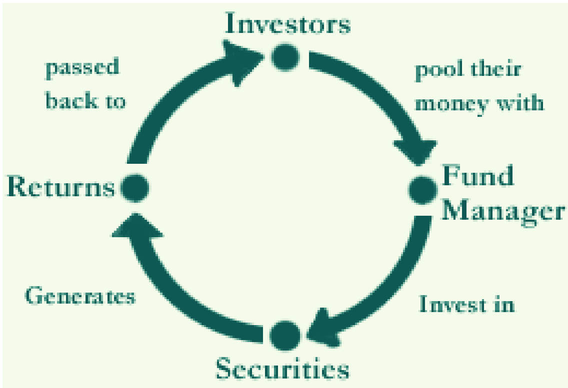
ABSTRACT

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciation realized is shared by its unit holders in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

Keywords : Performance, mutual funds, Investment, investors, savings

I. INTRODUCTION

Mutual funds provide a form of investment that is both relatively safe and relatively lucrative. Mutual funds offer investors the advantages of professional management of invested money and diversification of that investment. Mutual fund managers assume the responsibility of investigating and researching financial markets and selecting the combination of stocks, bonds, and other investment vehicles to be bought and sold. Thus, consumers purchase shares in a mutual fund and rely on the expertise of the mutual fund manager, whose job is to provide them with the highest possible return on their investments. Investing in a mutual fund is not as safe as investing in a bank or a savings and loan association... This is not true of other investment vehicles such as stocks and bonds, which by their nature rise and fall in value and offers no guarantees. But investing in a mutual fund usually is considered to be safer than investing in individual stocks and bonds. Mutual fund managers observe the financial markets and take advantage of trends that affect the fund by buying and selling various components of the fund. And because a mutual fund is diverse comprised perhaps of a hundred or more different kinds of stocks, bonds, or other investments—even the complete failure of one stock will make a relatively small impact on the fund's overall success. The flow chart below describes broadly the working of a mutual fund.



Flow of Mutual Fund

II. TYPES OF MUTUAL FUND

There are two general types of mutual funds. An investor in an open-end fund may request at any time that the fund buy back, or redeem, that investor's shares. The price of shares in an open-end fund is based on the market value of the fund's portfolio of investments. Investors in open-end funds may be charged additional fees known as loads. Front-end loads are charged when the investor purchases shares in a mutual fund; back-end loads are subtracted from the redemption price. Open-end funds are sold by securities dealers and brokers and financial planners, or they are sold directly to the investor by the fund's sales staff.

Closed-end funds are traded on stock exchanges or the over-the-counter market. Unlike open-end funds, closed-end funds usually have a fixed number of shares, which are purchased and redeemed at their market price plus a commission.

III. OBJECTIVES OF MUTUAL FUND

Mutual funds are broadly classified according to three types of investment objectives: growth of capital, stability of capital, or current income. Most funds are geared toward one or two of these objectives. For example, money-market funds invest in instruments like U.S. Treasury bills, which are relatively safe and generally stable. Therefore many investors view money-market funds as a good alternative to a bank account. Other funds seek stability of capital by investing in blue-chip stocks and high-quality bonds. Some funds are potentially more lucrative, but far riskier. Growth funds are somewhat aggressive, investing in speculative securities that show promise over time for slow but steady long-term return. Income funds also tend to be speculative, often investing in high-risk, high-yield securities with the goal of greater short-term return.

Within the three broad categories of mutual funds are numerous subcategories. Funds that seek both growth and income are known as balanced funds. Sector funds invest in certain types of businesses, such as the computer industry. Some funds strive to fulfill a political agenda, such as investing in environmentally responsible companies or companies that actively promote women and minorities. Precious metals funds, municipal bond funds, and international stock funds are other examples of mutual fund categories. Other funds are far less specialized and allow the fund manager free reign to compile and alter the fund's portfolio.

Mutual fund shareholders receive periodic investment income, or dividends, which comes from dividends and interest earned by the various securities that make up the fund's portfolio. Shareholders often elect to have these dividends reinvested into the mutual fund. Investors in mutual funds may choose to make monthly payments into the fund or have a specified amount automatically withdrawn from a bank account or savings and loan association account each month. Some companies offer a variety of open-end mutual funds with different investment objectives and allow investors a simple way to switch their money from one fund to another as their savings goals change.

IV. USAGE

Mutual funds can invest in many different kinds of securities. The most common are cash, stock, and bonds, but there are hundreds of sub-categories. Stock funds, for instance, can invest primarily in the shares of a particular industry, such as technology or utilities. These are known as sector funds. Bond funds can vary according to risk (high yield or junk bonds, investment-grade corporate bonds), type of issuers (government agencies, corporations, or municipalities), or maturity of the bonds (short or long term). Both stock and bond funds can invest primarily in INDIAN securities (domestic funds), both INDIAN and foreign securities (global funds), or primarily foreign securities (international funds). By law, mutual funds cannot invest in commodities and their derivatives or in real estate. (However, there do exist real estate investment trusts, or REITs, which invest solely in real estate or mortgages, and mutual funds, are allowed to hold shares in REITs. Likewise hedge funds, another type of funds that are limited to the wealthy, are allowed to invest in real estate and may exercise certain other practices that are not extended to mutual fund.) A mutual fund may restrict itself in other ways. These restrictions, permissions, and policies are found in the prospectus, which every open-end mutual fund must make available to a potential investor before accepting his or her money. Most mutual funds' investment portfolios are continually adjusted under the supervision of a professional manager, who forecasts the future performance of investments appropriate for the fund and chooses the ones which he or she believes will most closely match the fund's stated investment objective. This is called active management, in contrast to indexing, in which a fund's assets are managed to closely approximate the performance of a particular published index. Because the composition of an index changes less frequently than the condition of the market, an index fund manager makes fewer trades, on average, than does an active fund manager.

For this reason, index funds generally have lower expenses than actively-managed funds, and typically incur fewer capital gains which must be passed on to shareholders. The majority of actively managed funds outperform an index fund before costs; however, many can then underperforms the index funds after costs are considered. For this reason, some fee-only advisers strongly suggest index funds. (If the advisor is not fee only but instead is compensated by commissions, the advisor may have a conflict of interest in selling high commission load funds.)

Mutual funds are subject to a special set of regulatory, accounting, and tax rules. Unlike most other types of business entities, they are not taxed on their income as long as they distribute substantially all of it to their shareholders. Also, the type of income they earn is often unchanged as it passes through to the shareholders. Mutual fund distributions of tax-free municipal bond income are also tax-free to the shareholder. Taxable distributions can either be ordinary income or capital gains, depending on how the fund earned it.

V. SAMPLE STATISTICS

In most of the research design it becomes almost impossible to examine the entire universe. So the only alternative is to report to sampling. This is true for the present study as well. Basic principles to be followed in sampling are that the sample chosen must be representative of entire universe to be studied. In this research study the sample size of the 100 respondents has taken to make predictions on report. In this report the convenience sampling method is used to collect the data.

VI. DATA ANALYSIS AND INTERPRETATION

6.1 Where do you invest as of today?

Table 1

Investment	**Number of Respondents**
Bank Deposit	24
Shares	6
Bonds	2
Mutual Funds	40
Insurance	14
Real Estate	12
Others	2
TOTAL	100

Source: Primary Data

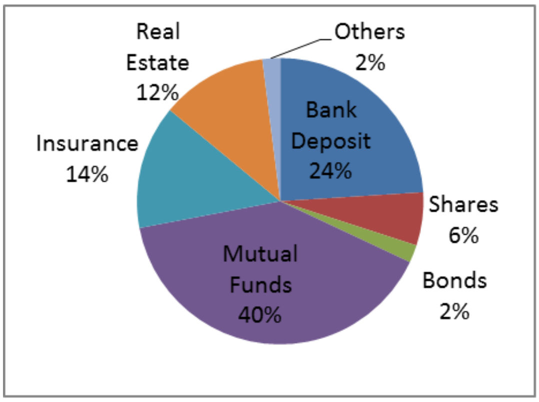


Figure 1

Out of 100 respondents 40% of the people prefer to invest in mutual funds, 24% in Banks & only 2% percent people invest in bonds.

6.2 Have you ever invested in mutual funds?

Table 2

Investment In Mutual Funds	**Number Of Respondents**
YES	40
NO	60

Source: Primary Data

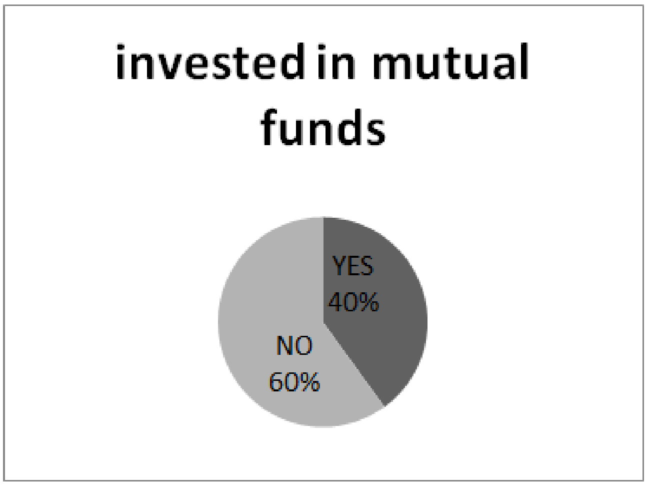


Figure 2

On the survey of 100 people only 40 % of people have invested in mutual funds. And remaining 60 percent invest in other sources like banks, shares, insurance etc.

IF YES (People who have invested in mutual funds)

6.3 Do you require expertise to manage your funds on your behalf.

Table 3

Need Of Expertise To Manage Funds	Number Of Respondents
YES	26
NO	14

Source: Primary Data

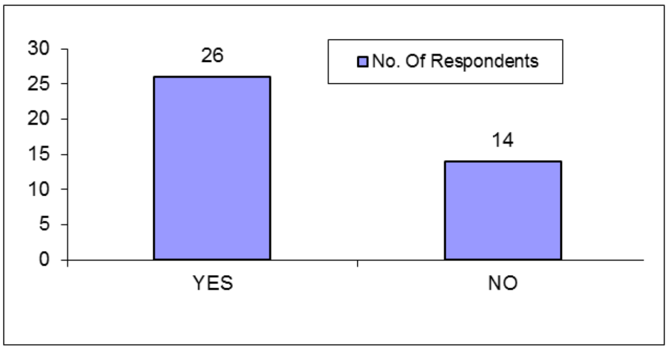


Figure 3

According to survey of 40 respondents 65% people need expertise help to manage their funds & remaining 35% people says that they don't need help of expertise.

6.4 What is your average time horizon for investment?

Average Time Horizon For Investment	Number Of Respondents
6 Months To 1 Year	14
1 Year To 3 Year	16
3 Year To 5 Year	10
5 Year Or Above	0

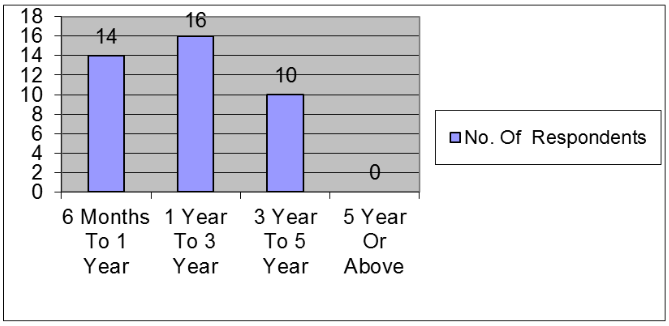


Figure 4

40% of people like to invest for one year to three year to get returns. & 35% people prefer to invest for short term (less than one year).

6.5 While investing in mutual funds which factors influence you the most?

Table 5

Factors Influencing While Investing In Mutual Funds	Number of Respondents
High Return	16
Liquidity	8
Security	6
Tax Benefit	10

Source: Primary Data

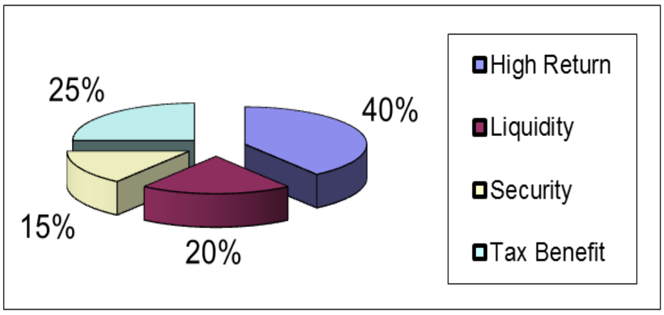


Figure 5

40% of the people want to get high returns on their investment and 25% people to get tax benefits while investing in mutual funds.

6.6 What range of return is expected from mutual funds?

Table 6

Expected Return From Mutual Funds	Number Of Respondents
10% to 20%	0
20% to 40%	20
40% to 60%	12
60% or above	8

Source: Primary Data

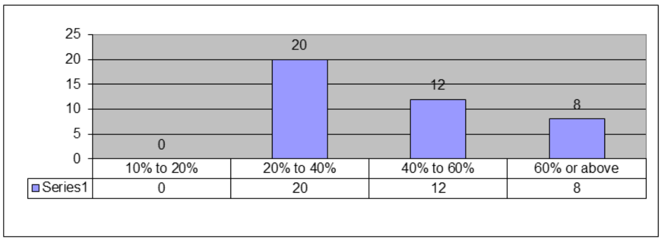


Figure 6

According to survey , most of the people(20 out of 40) expect returns ranging from 20 –40 % on their investment in mutual funds .Only 20 % people (8 out of 40) expect returns more than 60 %

VII. FINDINGS

1. Most of the people like to invest in mutual funds
2. Most of the people like to invest their money for one to three year to get returns on their investment.
3. People invest in mutual funds to get higher returns and tax benefits.
4. Some people don't want to invest in mutual funds because of risk factor and their lack of awareness
5. People would like to invest in mutual funds if they get proper knowledge of mutual funds with their relative benefits to them.

VIII. CONCLUSION

Most of the people like to invest in mutual funds And. like to invest their money for one to three year to get returns on their investment .People invest in mutual funds to get higher returns and tax benefits . Some people don't want to invest in mutual funds because of risk factor and their lack of awareness and finally people would like to invest in mutual funds if they get proper knowledge of mutual funds with their relative benefits to them. Most of People are not aware about mutual funds schemes so an awareness program should be conducted by company to aware the benefits of mutual funds.

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