CHAPTER - 10
SUMMARY OF CONCLUSIONS & SUGGESTIONS

There is a perceptible change in the Indian Economic scenario, especially after the initiation of Liberalized Economic Policy in 1991. This can be seen from the increasing rate of Gross Domestic Product (GDP) and Domestic Saving and Investment. Since 1980s, rate of domestic saving and number of small investors are growing rapidly. Investor’s preferences are also shifting from physical assets to financial assets and within the financial assets there is a gradual shift from bank deposits to securitized instruments such as shares, debentures and units of UTI and other Mutual Funds.

However small investors are still hesitant to enter the capital market directly because of lack of information and knowledge about the capital market, fear of risk, small size of savings available for investment, complicated nature of capital market operation, etc. It is also rare to find investors investing their entire savings in a single security. Under such conditions emergence and rapid growth of intermediaries like mutual funds and asset management companies is quite natural. Emergence of Mutual Funds and asset management companies can be said to be one of the important factors to mobilize funds from small and household savers and to invest them for obtaining maximum benefits with reduced risk.

Mutual funds offer the small unit holders the benefits of prudent and professional fund management, collective investment and reduced risk through diversification. Through, asset management companies, an investor can tend to invest in a group of securities called portfolio. Creation of portfolio helps to reduce risk without sacrificing returns. Asset management companies utilize the skills of specialized portfolio managers in constructing the optimal portfolio for the investor taking into consideration the risk-return characteristics of all possible portfolios. Thus, current investment scenario has changed drastically and professional portfolio management, backed by competent research, began to be practiced by mutual funds, investment consultants and big brokers.
The origin of Indian Mutual Fund Industry can be traced with UTI which was established in 1964. UTI enjoyed complete monopoly in the Mutual Fund Industry till 1987 and than other public sector mutual funds entered into the market. Mutual funds industry has been made open to the private sector in 1992-93. Although the Mutual Fund Industry in India is growing rapidly, it is still facing some challenges such as building the perfect portfolio for the client, periodic review and revision of investment portfolios of investors, constructing customized portfolio in accordance with the risk-return appetite of the investor, etc. Thus, there seems a vast potential for improvement in the working and mechanism of Mutual Funds and portfolio management of asset management companies in India. This necessitates a comprehensive study of portfolio management and services rendered by asset management companies which would help in suggesting remedial measures for improvement in the working of asset management companies.

There was a time when portfolio management was an exotic term, an elite practice beyond the reach of ordinary people, in India. The scenario has changed drastically. Portfolio management is now a familiar term and is widely practiced in India. The theories and concepts relating to portfolio management now find their way to the minds of investors in India.

In the beginning of the nineties, India embarked on a programme of economic liberalization and globalization. This reform process has made the Indian capital markets active. The Indian stock markets are steadily moving towards higher efficiency, with rapid computerization, increasing market transparency, better infrastructure, better customer service, closer integration and higher volumes. The markets are dominated by large institutional investors with their diversified portfolios. A large number of mutual funds have been set up in the country since 1987. With this development, investment in securities has gained considerable momentum.

Along with the spread of securities investment among ordinary investors, the acceptance of quantitative techniques by the investment community changed the investment scenario in India. Professional portfolio management, backed by
competent research, began to be practiced by mutual funds, investment consultants and big brokers. The Securities and Exchange Board of India (SEBI), the stock market regulatory body in India, is supervising the whole process with a view to making portfolio management a responsible professional service to be rendered by experts in the field.

The trend towards liberalization and globalization of the economy has promoted free flow of capital across international borders. Portfolios now include not only domestic securities but also foreign securities. Diversification has become international. In this context, financial investments cannot be conceived of without portfolio management.

Thus, to achieve efficiency in investment and to minimize the risk, study of Portfolio management is vital.

Morgan Stanley’s Dictionary of Financial Terms offers the following explanation:

*If you own more than one security, you have an investment portfolio. You build the portfolio by buying additional stocks, bonds, mutual funds, or other investments. Your goal is to increase the portfolio’s value by selecting investments that you believe will go up in price.*

*According to modern portfolio theory, you can reduce your investment risk by creating a diversified portfolio that includes enough different types, or classes, of securities so that at least some of them may produce strong returns in any economic climate.*

Accordingly, this explanation contains a number of important ideas:

1. A portfolio contains many investment vehicles.
2. Owning a portfolio involves making choices – that is, deciding what additional stocks, bonds, or other financial instruments to buy; when to buy; what and when to sell; and so forth. Making such decisions is a form of management.
3. The management of a portfolio is goal-driven. For an investment portfolio, the specific goal is to increase the value.

4. Managing a portfolio involves inherent risks.

**Thus, the art of selecting the right investment policy for the individuals in terms of minimum risk and maximum return is called as portfolio management.**

Portfolio management refers to managing an individual’s investments in the form of bonds, shares, cash, mutual funds etc. so that he earns the maximum profits within the stipulated time frame.

Portfolio management refers to managing money of an individual under the expert guidance of portfolio managers.

In a layman’s language, the art of managing individual’s investment is called as portfolio management.

The phrase “To each, his own” describes the main subject of the thesis “Portfolio Management” i.e. Portfolio Management is one of the very few subjects in the world that is relative to each individual.

One important lesson to remember is that human behavior in the marketplace remains constant. Investment decisions should be the product of a rational trade-off between risk and return, but unfortunately, they generally reflect an emotional response to fear and anxiety. Most investors tend to expect prevailing trends to continue and fail to accommodate change adequately. Too many investors seem to have forgotten the cardinal rule that there is no free lunch in the marketplace.

Thus, this memorandum contains some practical suggestions directed to the management of one’s own portfolio.

*It’s what you learn after you know it all that counts. – Earl Weaver*

Personal portfolio management is not a competitive sport. It is, instead, an important individualized effort to achieve some predetermined financial goal.
balancing one’s risk-tolerance level with the desire to enhance capital wealth. Good investment management practices are complex and time consuming, requiring discipline, patience, and consistency of application. Too many investors fail to follow some simple, time-tested tenets that improve the odds of achieving success and, at the same time, reduce the anxiety naturally associated with an uncertain undertaking.

Following advices are recommended to build desired investor’s portfolio:

1. *A fool and his money are soon parted:*
   Investment capital becomes a perishable commodity if not handled properly. One should be serious and attentive about his financial affairs by taking an active, intensive interest. If you don’t, why should anyone else?

2. *There is no free lunch:*
   Risk and return are interrelated. One should set reasonable objectives using history as guide. All returns relate to inflation. Better to be than sorry. Never give up, never in. Most investors underestimate the stress of a high – risk portfolio on the way down.

3. *Don’t put all your eggs in one basket:*
   Diversity - Asset allocation determines the rate of return. Stocks beat bonds over time.

4. *Never overreach for yield:*
   Remember, leverage works both ways. More money has been lost searching the yield than at the point of a gun.

5. *Spend interest, never principal:*
   If at all possible, take out less than comes in. Then, a portfolio grows in value and last forever. The other way around, it can diminished quite rapidly.

6. *You cannot eat relative performance:*
   Measure results on a total return, portfolio basis against your one’s own objectives, not someone else’s.
7. *Don’t be afraid to take a loss:*

Mistakes are part of the game. The cost price of a security is a matter of historical insignificance, of interest only to the IRS.

Averaging down, which is different from dollar cost averaging, means the first decision was a mistake. It is a technique used to avoid admitting a mistake or to recover a loss against the odds. When in doubt, get out. The first loss is not only the best but is also usually the smallest.

8. *Watch out for fads:*

Hula hoops and bowling alleys (among others) didn’t last. There are no permanent shortages (or oversupply). Every trend creates its own countervailing force. Expect the unexpected.

9. *Act:*

Make decisions. No amount of information can remove all uncertainty. Have confidence in your moves. Better to be approximately right than precisely wrong.

10. *Take the long view:*

Don’t panic under short-term transitory developments. Stick to your plan. Prevent emotion from overtaking reason. Market timing generally doesn’t work. Recognize the rhythm of events.

11. *Remember the value of common sense:*

No system works all the time. History is a guide, not a template.

Keeping this purpose in view, the major emphasis was thrown on the following points in the thesis:

- To understand the concept of portfolio management and the role of the Asset Management Companies in capturing maximum share of investor’s markets.
- To carry out analysis of the expected stock returns of various fund schemes prevailing in the market.
- To understand the problems faced by fund houses in managing the funds.
To analyze the benefits of Portfolio Management services to the investors and fund houses.

To know whether investor’s home is biased or not while selecting the Asset Management companies to invest into?

To find out major fund management players in India and to study their consciousness towards investors.

To study the influence of liberalization and globalization of the economy on the flow of capital and their management thereof.

To study risk-returns mechanism and how it can be fruitfully achieved through portfolio management.

To examine growth trail of mutual funds in India and their impact on the common investor.

To study the scope for improvement in quality of portfolio management provided by various Asset Management Companies (AMC’s).

SUGGESTIONS:

Today, the financial market is increasingly complex and managing one’s own portfolio will take up a lot of time and effort. There are situations when we don’t have time or knowledge to explore the best investment alternatives in the market. This is a common problem faced by many wannabe investors. At this juncture, portfolio management services can help investor get out of this dilemma. So investor can simply assign his investments to portfolio management services who will report to him regularly on his portfolio performance. Thus, investor will not feel lost in this complex world of investments and the experts will do their job. Thus, PMS provides the following:

- PMS gives investors access to an institutional process of money management.
- Provides a customized solution by matching the unique circumstances and objectives of each investor.
- Wealth creation based on disciplined investment process is the crux of PMS.
- Effective diversification helps reduce portfolio volatility and enhances risk-adjusted returns over long term.
- PMS gives investor direct ownership of the individual securities in the portfolio.
Setting SMART Financial Goals—

“An investor without GOAL is like a traveler without a destination.” But setting goals is not an easy task, it is a continuous ongoing process.

Make SMART GOALS:

S – Specific or Significant
M – Measurable or Meaningful
A – Attainable or Action–Oriented
R – Relevant or Rewarding
T – Time-bound or Trackable

Setting Financial Goals: Financial Goals are set first and then a road map is created to achieve them.

But again the basic question – how do I set my financial goals?

Setting Smart Financial Goals

Any goal, financial or otherwise will become a Smart Goal when you following features are added to it:

1. **Smart Financial Goals are SPECIFIC:**

   Being “Rich” is a goal but not a smart goal. If I put it like this that I wish to plan for my retirement, so that I am financially independent – it becomes more specific. The statement specifies “richness” and the time by when you want to achieve the goal. But again this is not a smart goal. Something is missing.

2. **Smart Financial Goals are MEASURABLE:**

   Besides being specific one should also be able to assign a number to the goal. Instead of saying “financially independent” it should define the money in number terms. When you wish to assign a cost to future expense, you need to guess or calculate the numbers taking a few realistic assumptions like inflation and interest rates. These assumptions can also vary. For example the inflation rate on Education can be much higher in comparison of buying car. So it is an expert’s job. But when you assign numbers a goal becomes measurable and comparable also. So for the
above example if we say (in present value) – I wish to buy a new car of Rs 10 Lakh and a house worth RS 60 Lakhs in Goa.

3. **Smart Financial Goals are ACHIEVABLE & ATTAINABLE:**

   Only decorating the goal with number is not a smart work. A goal needs to be thoughtful and has to be seen in the light of practicality as well. We have to see if this is attainable or not. It should not be an out of reach dream that one starts to work upon and expect magic to help. Again an expert advice is required here and he can help you to understand its reality. Also sometimes a non-achievable may be adjusted and can be made achievable. So we need to sit and give a deep thinking and even ask for expert help. Again for the above example – can a person earning Rs 30000/- per month having 2 kids to support and monthly expense of Rs 20000/- achieve the above mentioned goals? What if he has not started saving till today? Or what if he is bound to get some inherited money? So under all these circumstances, which are unique for all individual, we need to check the attainability criteria of a goal to make it a smart goal.

4. **Smart Financial Goals are REALISTIC & RELEVANT:**

   Goals should be realistic – you can’t say I will build my retirement goals by investing in last 5 years of my job or I will invest Rs 500 per month to achieve my retirement corpus of 3 crores.

5. **Smart Financial Goals are TIMELY or TIME-BOUND:**

   This is last step of setting smart financial goals but very important. There should be some time limit attached to every goal. For example: I want to buy a car in 5 years or I want to buy a house in 2030.

**Prioritizing Smart Financial Goals**

Life is a not like a play script. It does not dwell on one theme or issue. It is full of phases, events and happenings. In financial life one has to invest today for things he would require in a very short span like annual premiums or kids hostel fees and for the expense that would be have long span like kid’s marriage or retirement.
Thus goals need to be put or priority list. Once these are recorded on time frame they can be classified as immediate goals, mid-term goals and long term goals.

**Financial Goals Examples:**

**Short Term Financial Goals:**
- Making a contingency fund or emergency fund for family.
- Saving for school admission of kids.
- Saving for a purchase in near term like a domestic appliance or for treatment of a recently diagnosed ailment.
- Saving for life insurance premiums.
- Investments for tax planning.

**Medium Term Financial Goals:**
- Retiring a loan or debt.
- Planning for a foreign trip or a vacation.
- Saving for college or pre college expenses for your kid.
- Saving for starting a family in coming years.
- Planning for a new or change of vehicle.
- Saving for home/property investment.

**Long Term Financial Goals:**
- Building retirement corpus. (both, expenses and medical included)
- Saving for providing inheritance.
- Saving for daughter’s marriage etc.
- Planning a home for post-retirement life or a farm house.

While setting SMART financial goals, one should try answering these questions:
- Have you decided you financial goals?
- Have you checked are these goals Smart?
- Have you prioritize and taken action to your financial goals?

If “NO” is the answer to any of these questions, it’s time to prepare Financial Goals outline & start making smart goals.