CHAPTER 7

SUGGESTIONS AND CONCLUSION

This chapter provides some suggestions to the mutual fund companies, policy makers, governing bodies and investors for enhancing the performance of Indian mutual funds in the first section, 7.1. Some directions for the further research in this area have also been put forward in section 7.2. The final section i.e., section 7.3 offers the conclusion of the study.

7.1 SUGGESTIONS

Some suggestions or recommendation for mutual fund companies, policy makers and investors on the basis of present study have been presented in this section.

1. In India first mutual fund was set up in 1964 and Indian mutual fund industry has completed 47 years till 2011. In spite of such a long experience and huge establishment of 1390 schemes with Rs. 66,04,960 million as asset under management, most of the mutual fund schemes have been performing inefficiently. Mutual fund companies, AMFI and governing bodies as SEBI should take corrective measures so as to make mutual fund schemes perform efficiently.

2. Mutual fund companies should not judge the performance of mutual funds just by comparing their return from some benchmark but must also identify the schemes that are not performing efficiently. Then peer efficient schemes might be followed with a set of target or virtual inputs by inefficient schemes so that efficiency level might be achieved.

3. Apart from following target input values, major cause of inefficiencies in the performance of mutual funds should be identified. As load fee and expense ratio have been found out as the major cause of inefficiency in mutual fund schemes, mutual fund companies should focus on reducing their expenses and management fee.
4. Most of the mutual fund companies are not getting benefited in performance efficiency from their experience. That means older mutual fund schemes are not performing efficiently. The researcher is of the view that either these schemes must be wind up or a thorough review of strategy is needed i.e., these must be restructured.

5. Large mutual fund schemes with high assets are not performing efficiently. Therefore, mutual fund companies should either improve their management or such large schemes should not be run i.e., limited funds must be occupied by any scheme.

6. Despite significant growth in the number of mutual fund schemes in recent years, very few individual investors are investing in it as they consider that the Indian mutual fund industry as a whole is not performing well. During April, 2006 to March, 2012, more than half of the mutual fund schemes have risk adjusted performance (Sharpe ratio) below the average risk adjusted return of entire mutual fund industry. However risk (β) of very few schemes is higher than the average beta of all mutual fund schemes (Annexure H). Therefore, mutual fund companies should take corrective measures to improve their performance. Policy makers and governing bodies might also discontinue mutual fund schemes that have been performing below average since a long period of time.

7. Investors invest most of their money in real estate, gold/e-gold, FDs and shares and investment in mutual funds is lower than these options. This shows that investors are not confident enough for this investment avenue. In spite of the fact that most of the mutual fund schemes have risk adjusted return greater than the average of BSE Sensex during the period of April, 2006 to March, 2012 and the average of Sharpe Ratio being higher than the average of BSE Sensex return during the same period, mutual funds possess an image of high risk, low return investment avenue (Annexure I). Therefore, mutual fund companies might step towards this to promote the success of mutual funds among the investors at large.

8. Mutual funds are considered as risky as shares. Therefore, companies may focus to introduce and innovate in some schemes that give guaranteed return. Gilt schemes and money market schemes may also be boost up. Also, steps from the government as Rajeev Gandhi Equity Saving Schemes with an objective to encourage the savings of small investors in domestic capital market may be enhanced further.
9. Further, there is need to educate investors about the advantages of mutual fund schemes. The AMFI with the help of SEBI should arrange more and more awareness programme to promote proper understanding of the concept and working of mutual funds. SEBI has organised a comprehensive Securities Market Awareness Campaign in order to educate the investors and that campaign includes workshops, audio-visual clippings, distribution of educative materials, etc. Such type of campaigns should be arranged on regular basis for spreading awareness about benefits from investing in mutual funds and mutual fund companies must also participate in this campaign.

10. Investors judge mutual fund schemes on the basis of their characteristics as structure, size, performance, status and professional expertise. Therefore, mutual fund companies should emphasise strong points of their schemes regarding these characteristics. Also, most of the investors have been investing in Growth, Income and Balanced mutual fund schemes. They must be made aware about the benefits of other type of schemes also as ELSS, Index, Fund of funds, International funds, Lifestyle funds etc.

11. Investors before making investment in mutual fund must check their performance in terms of efficiency also apart from current NAV and past performance. Also, they must make investment decision in mutual funds on the basis of their various attributes as asset ratio, risk, age, load status and expense ratio.

7.2 LIMITATIONS OF THE STUDY

The major limitation faced during the research is the availability of secondary data. Present study requires yearly data for various attributes of mutual fund schemes such as their past performance, load status, expense ratio, asset under management, minimum initial investment required, risk in terms of beta (β) and sigma (σ) and age of the mutual fund schemes. For many mutual fund schemes, complete set of data was not available e.g., for some of the schemes, data of their past performance was available but the data for their expense ratio was not accessible. Such mutual fund schemes have been excluded from the study which has resulted in the decrease of sample size.
To study investors’ behaviour, information about their income and savings were required. Most of the respondents were hesitant in providing this type of data on phone or through mail. That is why primary data was collected through personal interaction. Due to time and resource constraints, investors were contacted only from the National Capital Region for the present study.

7.3 DIRECTION FOR FURTHER RESEARCH

The present study is quite holistic covering all the aspects of performance of mutual funds and investors’ behaviour. Even than there is some scope to extend the present research.

Present study has been conducted for past six years for which whole set of data was available. The similar kind of study might be carried for a shorter span of time period say two to three years. By considering this, data for large number of mutual fund schemes will be available and hence the sample size may be increased. Beside this, managers of the mutual fund schemes might also be added in the performance attributes. If the study for two to three years will be conducted as the data about mutual fund manager will be available for such a small duration.

Due to constraint of time and resources, the study about investors’ behaviour has been limited to major cities of National Capital Region as Gurgaon, Faridabad, Delhi, Meerut, Ghaziabad, Noida and Greater Noida. The present study might be conducted in other parts of the country and hence investors’ behaviour in India might be analysed.

Further a detailed study can be done by considering the impact of social influence and personality types on investors’ behaviour and conducting the same on groups of investors using demographic characteristics.

7.3 CONCLUSION

In Indian mutual fund industry, most of the mutual fund schemes have been performing inefficiently. However, when analysed within their category as Growth, Income, Balanced and ELSS, situation is much better and approximately half of the schemes in each
category have been performing efficiently. Load fee and expense ratio have been found as the major cause of inefficiency in mutual fund. For all the inefficient schemes, there are respective peer efficient schemes in particular weights by following which these schemes might attain efficiency level. Thus, for the entire set of inefficient schemes, target values or virtual inputs are there for achieving the efficiency level. These target values shows that expense ratio and load fee should be reduced to achieve efficiency.

There are some attributes of mutual fund schemes as their age, asset ratio and past performance that affect their efficiency performance. Older schemes and schemes with high asset ratio are performing inefficiently. However, mutual funds which had good performance in past are more likely to perform well in future.

The number of investors and the amount invested in mutual funds is quite low. Investors consider mutual funds as low return and high risk investment avenue. Its liquidity is perceived as high but tax benefits and procedural understanding are low for these. Also, investors judge mutual fund schemes for investment on the basis of their structure, size, performance, status and professional expertise. Further, investors expect good regulations, expert advice and strong grievance mechanism from mutual fund companies. Most of the investors have been investing in Growth, Income and Balanced mutual fund schemes.