PREFACE

The India capital market has been increasing tremendously during the period of 2005 to 2007 years. With the reforms of economy, reforms of industrial policy, reforms of public sector and reforms of financial sector, the economy has been opened and many developments have been taking place in the Indian money market and capital market. In order to help the small investors, mutual fund industry has come to occupy an important place.

Domestically, on 2009 markets traded in a range with a downward bias largely due to concerns over the global scenario but also due to some weakness in the domestic economy. The Sensex and Nifty ended the month 5.7% and 3.9% lower while the CNX Mid-cap Index was down 5.4%. Beside international developments, first the budget and then the stimulus package were the key milestones of the month. The budget was a non-event, as expected, with the FY09 fiscal deficit rising to 6% of GDP on the back of rising subsidies and shrinking taxes.

This remains an area of concern as it crowds out domestic borrowing, keeps rates higher and restricts government spending. Economic data was uninspiring with IIP at -2% for the month of January 2009 and third quarter GDP growing 5.3%, lower than expectation due to weaker agricultural growth. The Mutual fund industry, besieged by net redemptions by investors and adverse global and local market conditions, shrank by 1.6% in terms of AUM during the year FY2011-
2012. It was seen in 2006 that there was increased investor participation in the industry when market was Booming, was leading to fund inflows that enabling the AUM to grow at a pace greater than the Sensex.

However, volatile market conditions in following two years have led to net withdrawals by investors to the tune of 22,023 crore in 2011-12, which was leading to a further drop in AUM, in addition to the drop caused by adverse market movements. The Mutual fund industry is primarily debt-oriented with debt funds forming 64% of the AUM. As in the past, increased equity participation is the need of the hour for the Mutual fund industry.

The global economic crisis wherein the world flirted with a 1930s-style Great Depression pushed AUM down and the decline did not last more than a year. In 2009, AUM shot up by a whopping 61.6%. This was because of bond funds which experienced strong net inflows and equity markets rallied hard from their abysmal lows in February 2009.

On the liquidity front, FIIs were sellers to the tune of US$ 2.4bn this Small investors face a lot of problems in the share market, limited resources, lack of professional advice, lack of information etc. Mutual fund has come as a much needed help to these investors. It is a special type of institutional device or an investment vehicle through which the investors pool their savings which are to be invested under the guidance if a team of experts in wide variety of portfolios of corporate securities in such way, so as to minimize risk, while ensuring safety and steady return on investment. It forms an important part of the capital market,
providing the benefits of a diversified portfolio and expert fund management to a large number, particularly small investors.

With the emphasis on increase in domestic savings and improvement in deployment of investment through markets, the need and scope for mutual fund operation has increased tremendously. The basic purpose of reforms in the financial sector was to enhance the generation of domestic resources by reducing the dependence on outside funds. This calls for a market based institution which can tap the vast potential of domestic savings and canalize them for profitable investments.

Mutual funds are not only best suited for the purpose but also capable of meeting this challenge. As mutual funds are managed by professionals, they are considered to have a better knowledge of market behaviors. Besides, they bring a certain competence to their job. They also maximize gains by proper selection and timing of investment. Another important thing is that the dividends and capital gains are reinvested automatically in mutual funds and hence are not frittered away. The automatic reinvestment feature of a mutual fund is a form of forced saving and can make a big difference in the long run.

The mutual fund operation provides a reasonable protection to investors. As mutual funds creates awareness among urban and rural middle class people about the benefits of investment in capital market, through profitable and safe avenues, mutual fund could be able to make up a large amount of the surplus funds available with these people.
The mutual fund attracts foreign capital flow in the country and secures profitable investment avenues abroad for domestic savings through the opening of offshore funds in various foreign investors. Lastly, another notable thing is that mutual funds are controlled and regulated by SEBI and hence are considered safe. Due to all these benefits, the importance of mutual fund has been increasing. Within a short span of time, mutual fund operation has become an integral part of the Indian financial scene and is poised for rapid growth in the near future.

The mutual fund industry has been remarkably resilient over the last decade, inspite of varying economic conditions, capital market scams, and increasing competition. Today, there are more than 40 mutual fund companies operating various schemes tailored to meet the diversified needs of savers. The total assets under management crossed Rs. 150,000 crores, recording a growth rate of 65% besides vast majority of equity schemes outperformed the market. At present, 451 schemes are offered, but this number is a miniscule fraction of the 14,000 odd schemes offered by mutual funds in the US.

Moreover, in the US, there is more money in mutual fund than the bank deposits. Mutual funds in India have tapped only two percent of the urban population and rural penetration is negligible. Based on the survey, mutual fund total assets under management in India contribute just 2% in the total corpus of worldwide. As mutual fund has entered into the Indian capital market, growth profitable enough to attract competitors into this cherished territory encouraging competition among all the mutual fund operators, there is need to take some
strategy to bring more confidence among investors for which mutual fund would be able to project the image successfully.