Glossary and Bibliography
GLOSSARY

Adjusted beta
The estimation of a security’s future beta, which is derived from historical date, but is modified assuming that the security’s real beta has tendency to move towards the market average of one.

Alpha
In a Jensen Index, a factor to represent the portfolio’s performance that diverges from its beta, representing a measure of the manager’s performance.

Asset Management Company
The company which handles the day to day operations and investment decisions of a unit trust.

Balanced fund
Funds which aim to provide both growth and regular income as such schemes invest both in equities and fixed income securities in the proportion indicated in their offer documents.

Bench Mark
Security used as the basis for interest rate calculations and for pricing other securities. Also denotes the most heavily traded and liquid security of a particular class.

Benchmark index
Indicators used to provide a point of reference for evaluating a fund’s performance.

Beta
A measure of the volatility of a stock relative to the market index in which the stock is included. A low beta indicates relatively low risk; a high beta indicates a high risk.

Blue Chip
The best rated shares with the highest status as investment based on return, yield, safety, marketability and liquidity.
Capital Asset Pricing Model (CAPM)

An economic theory that describes the relationship between risk and expected return and serves as a mode for the pricing of risky securities. The CAPM asserts that the only risk that is priced by rational investors is systematic risk, because it cannot be eliminated by diversification. The CAPM says that the expected return of a security or a portfolio is equal to the rate on a risk-free security plus a risk premium.

Commercial Paper

A short term promise to repay a fixed amount that is placed on the market either directly or through a specialized intermediary. It is usually issued by companies with a high credit standing in form of a promissory note redeemable at par to the holder on maturity and therefore does not require any guarantee.

Derivative

(1) A security derived from a debt instrument, share, loan whether secured or unsecured, risk instrument or contract for differences or any other form of security;

(2) A contract which derives its value from the prices, or index or prices, of underlying securities.

Diversification

Spreading the risk by constructing a portfolio that contains many different investments whose returns are relatively uncorrelated. Thus, risk levels can be reduced without a corresponding reduction in returns.

Investment Company

A corporation, trust or partnership that invests pooled unit holder/shareholder money in securities appropriate to the organization's objective. Mutual funds, close-ended funds and unit investment trusts are the three types of investment companies.

Junk Bond

High yield bond issued by low rated companies

Management Charge/Fees

The amount a mutual fund pays to its investment adviser for services rendered, including management.
Market Price

The last reported sale price for an exchange traded security

Money market mutual funds

Schemes investing exclusively in safer short-term instruments such as treasury bills, certificates of deposit, commercial paper and inter-bank call money, government securities, etc.

Net worth

The aggregate value of the paid up equity capital and free reserves (excluding reserves created out of revaluation), reduced by the aggregate value of accumulated losses and deferred expenditure not written off, including miscellaneous expenses not written of.

Net Asset Value (NAV)

The current market worth of a mutual fund’s share. A fund’s net asset value is calculated by taking the fund’s total assets, securities, cash and any accrued earnings, deducting liabilities, and dividing the remainder by the number of units outstanding.

OTC (Over the Counter)

A financial transaction that is not made on an organised exchange. Generally the parties must negotiate all the details of each transaction or agree to use simplifying market conventions.

Pooling

The basic concept behind mutual funds in which a fund aggregates the assets of investors who share common financial goals. A fund uses the investment pool to buy a diversified portfolio of investments and each mutual fund share purchased represents ownership in all the funds underlying securities.

Portfolio

A collection of securities owned by an individual or an institution (such as a mutual fund) that may include stocks, bonds and money market securities

Portfolio investment

Investment which goes into the financial sector in the form of treasury bonds and notes, stocks, money market placements, and bank deposits.
Portfolio investment involves neither control of operations nor ownership of physical assets

Sector fund

A fund that invests primarily in securities of companies engaged in a specific investment segment. Sector funds entail more risk, but may offer greater potential returns than funds that diversify their portfolios.

Systemic risk

Risk that affects an entire financial market or system, and not just specific participants. It is not possible to avoid systemic risk through diversification.

Unsystematic Risk

Also called the diversifiable risk, residual risk, or company-specific risk, the risk that is unique to a company such as a strike, the outcome of unfavourable litigation, or a natural catastrophe.

Volatility

Volatility equates to the variability of returns from an investment. It is an acceptable substitute for risk; the greater the volatility, the greater is the risk that an investment will not turn out as hoped because its market price happens to be on the downswing of a bounce at the time that it needs to be cashed in. The problem is that future volatility is hard to predict and measures of past volatility can, themselves, be variable, depending on how frequently returns are measured (weekly or monthly, for example) and for how long. Therefore, putting expectations of future volatility into predictive models is of limited use, but resorting to using past levels of volatility is equally limited.
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