CHAPTER 8

Implications of the Study

8.1 Implications for Investors

8.2 Implications for Fund Managers and AMC’s

8.3 Implications for Researchers
CHAPTER 8- IMPLICATIONS OF THE STUDY

The study has contributed to the mass of knowledge significantly as the findings can be used by investors, to analyse mutual fund performance in a new light thereby making effective choices of investment. The findings can be utilized as guideposts to fund managers and asset management companies for choosing the right style and asset allocation for the fund and to design funds which are better suited to investors needs. The possible applications and extensions in terms of implications of the study could be enumerated as under

8.1 Implications for Investors

Perhaps the biggest implications can be derived for investors. It is yet again proved in the study that active fund managers indulge in style drift. Style drift leads to investor having a different asset allocation than what they desired. Consequently investors are not able to meet their long term objectives. This leads to two primary problems: Inappropriate levels of risk and insufficient diversification.

The best way for investor to avoid style drift is to Investors while investing is to read prospectus properly by carefully going through the investment objective and go through the portfolio composition to extract what is the asset allocation strategy of the fund. The Investors should also compare other parameters like sharpe ratio, R-squared, beta, alpha of a fund before taking the investment decision.

Another solution is to skip active funds or distribute the asset allocation into both active and index funds which simply follow a
Secondly investors investing in balanced funds need to be cautious. Investors often invest in balanced funds to have benefits of both equity and debt. In our study it has been proved that funds behaved primarily like equity. Thus in such circumstances, if bearmarket prevails such funds would face much loss. Investors ought to plan their allocation accordingly.

8.2 Implications for Fund Managers and AMC’s

Fund managers should broadly adhere to the style of the fund mentioned in the prospectus and should not drift much from this style. In the study it is proved that style drift for short term gains often is not beneficial for the performance of the fund as most of such funds are not able to beat the benchmark.

As discussed in chapter 1, retail investors in India have very less knowledge of understanding of risk-return, asset allocation and portfolio diversification concepts. Hence it is the duty of fund managers and AMC’s to be thoroughly transparent in their strategy formulation and should not divert from the basic objectives of the fund.

8.3 Implications for Researchers

The study draws attention of researchers on very important determinant of fund performance-Style. Since as per our knowledge, very less research has been done on it in Indian context, it demands greater attention of researchers academicians and practitioners. Following areas of research can be explored hence.
The study is only a preliminary work in finding style exposures. Elaborate results could be achieved by applying constrained regression and quadratic optimization to the same data.

More such studies could be carried out on style analysis of equity funds and debt funds, and a comparison could be made among the three to find out the role of style and selection skills in the performance of mutual funds.

The period of study taken in the study is five years which is sufficient for implementing RBSA as quoted by Sharpe (1992). However, it is worth finding out what impact on results would be caused if this time period is increased to ten years etc.

The study was conducted to find the impact of style on performance of balanced funds in India. However a similar study could be conducted of performance of international funds during the same time period and a holistic comparison could be made.

The study only found out the impact of style on performance of balanced mutual funds. However there are other qualitative aspects of style which affect performance but could not be studied or analysed in the study. Hence a more exhaustive study could be done to consider impact of both qualitative and quantitative aspects of style and its impact on fund performance.