CHAPTER 6
CONCLUSION

This chapter deals with the conclusions on which we have arrived after doing detailed analysis of the data as explained in the previous chapter. It also points out the areas where the present research can be helpful for the mutual fund industry to penetrate the product and position it correctly in the minds of the investment professionals and eventually, in that of the investors.

As discussed earlier, the present study investigates the investing behavior as well as the perception of investment professionals with the help of primary data. The data collected provides an insight into the advisors’ change in behavior with the change in the attributes of mutual fund schemes. It also indicates the perception of advisors on selected mutual fund schemes and explains how much it is based on real figures or personal preferences. In the last section of this chapter, the result of the performance of mutual fund managers, which is obtained with the help of secondary data, is explained in detail.

6.1 INVESTING BEHAVIOR OF INVESTMENT PROFESSIONALS:

Analyses of investing behavior of investment professionals reveals their preferences for the various attributes and attribute levels. The following conclusions have been drawn from the detailed analysis:

i) The top six attributes considered by the investment professionals for investing in a mutual fund scheme are- past performance, expense ratio, rating, fund size, fund manager’s experience, fund manager’s style. The investment professionals consider these attributes while selecting a particular mutual fund scheme; hence mutual fund companies should pay attention on these attributes while designing a new mutual fund scheme.

ii) The selected attributes carry significant importance and have a preference order in the minds of the professionals. After considering all the attributes and attribute levels, the researcher has found that expense ratio is considered the most important attribute after which ratings are the second most valued attribute by the investment professionals. Thus, this indicates that a mutual
fund scheme with minimum expense ratio (0-1%) will always be preferred over that with high expense ratio. This is not only going to attract the investment professionals but also going to improve the performance efficiency of the mutual funds. Similarly, the schemes with 5 star ratings will be selected promptly for investment by the investment professionals according to this study. This is because the rating agencies are having valuable position in the minds of the professionals and thus, a mutual fund scheme, which is having a high rating given by these agencies, will always be preferred by them.

iii) The research has revealed the ideal combination of attributes, in accordance with the investing behavior of the investment advisors, which can be used in designing a successful mutual fund scheme in the mutual fund industry. Thus, it could be inferred that this ideal combination of attribute levels i.e. 0-1% of expense ratio, 5 star rating, super normal growth in last three years, less than Rs. 10000 cr. of fund size, aggressive investment style, more than 4 years of fund manager’s experience, if present in a mutual fund scheme, it will be most favorable for investment by investment professionals.

iv) The study shows that the behavior of the investment professionals tend to change in case of qualitative aspects of the schemes as they are subjective in nature. This is revealed by the high reversals in the behavior of fund advisors in the case of fund manager’s experience. The preference for a mutual fund scheme managed by highly experienced fund manager, is questionable according to this study. This reiterates that the behavior of fund advisors can be different from the expected one in case of attributes which are qualitative in nature.

v) The researchers have also found an effective tool of Simulation in the conjoint analysis using SPSS software, to predict the success of newly designed mutual fund schemes to be launched in the market. This research tool is the real power of this analysis, which can be further used by the fund houses in predicting the success of the mutual fund schemes having a particular set of attribute levels.

As given in the previous chapter, the combinations of various attribute levels designed for this study can act as a model for predicting the success of newly designed mutual fund scheme in the financial market, if they are subjected to the simulation test in conjoint analysis using SPSS software. Moreover, it can bring a revolution in the mutual fund industry, if the fund managers
utilize the information given in the findings of this research for designing new mutual fund schemes as well as for predicting their success in the market.

6.2 PERCEPTION OF INVESTMENT PROFESSIONALS:

With regard to the perception of mutual fund advisors, on the selected mutual funds, it was discovered that the perception of financial advisors is based on personal preferences and preconceived notions rather than on technical and fundamental analysis of the various mutual fund schemes.

The researchers have found out that in case of expense ratio, ratings, fund manager’s experience and risk, the perception of fund advisors are far away from real figures. On the other hand, the financial advisors are able to perceive some of the mutual fund schemes quite close to real figures on the basis of past performance and fund size. This shows that they are able to judge the schemes correctly to some extent on quantifiable attributes. This also confirms the inability of financial advisors to perceive the schemes efficiently on qualitative parameters.

This gives an insight on the reason behind the current scenario of the mutual fund industry where mutual fund is still a “push” product rather than a “pull” product. The main reason that can be concluded from the above analysis, is that the financial advisors, who are the main link between the investors and the fund houses, are themselves not able to perceive the schemes correctly in terms of their qualitative attributes. In the case of quantitative attributes also their perception is not fully coinciding with the real figures.

As a result, it could be concluded from this discussion that most of the fund advisors perceive the mutual fund schemes according to their own notions and biases rather than doing a proper research and analysis of these schemes in terms of the attributes present in them. Moreover, they also guide the investors on the basis of their own perception which is not close to the real figures, thus, resulting in decrease in confidence of the investors in these investment avenues. Thus, to increase the confidence and thereafter investment of investors in these avenues, it is imperative for the fund advisors to conduct proper technical analysis of various mutual fund schemes before guiding the investors.
6.3 PERFORMANCE OF FUND MANAGERS

Study of the performance of top 15 mutual fund schemes during the period between Jan 2008 – Mar 2014, with the help of the three models as given in the previous chapter, has revealed that the fund managers are neither exhibiting stock selectivity nor market timing skills in any of the given cases. The analysis of the results obtained from these models can be expressed as follows:

Jensen’s Model

The negative alphas -statistically significant at five percent level of significance- of all the mutual fund schemes indicates that the stock selection skills of fund managers of these schemes appear to be questionable. The results emphasize that the returns earned by the mutual fund schemes is not because of the professional skills present in the fund managers but because of the market movements. Moreover, as all the schemes are equity mutual fund schemes, their returns are dependent on the market movements as well as on the skills of the fund managers.

Researcher has come to a conclusion, from the analysis of the secondary data, that most of the fund managers are not able to add any value to the portfolios managed by them in terms of selecting profitable stocks rather they are dependent on market movements for gaining extra returns.

TM Model

The alphas of all the mutual fund schemes are negative and statistically significant at five percent level of significance. This indicates that stock selectivity skills are not present in the fund managers.

The gamma values are also negative for 13 schemes and only for two schemes it is positive but that too is not significant statistically. This indicates that market timing skills are also absent even among fund managers of top performing mutual fund schemes.

Results obtained from this model has re-confirmed the same obtained from the Jensen’s model regarding the stock-selectivity skills of the fund managers. It again proves the absence of stock selectivity skills in the fund managers as the alpha values obtained by this model are all negative.
The conclusion derived by the researcher from the empirical analysis using this model, regarding the market timing skills, is that the fund managers are not able to judge the market movements in the right direction at any point of time during the period of the study. They should have the ability to judge the market movements and bring changes in the portfolios managed by them accordingly. They will be able to earn extra returns for their investors only if they are able to churn their portfolios according to the market conditions. These extra returns will boost the confidence of investors in the mutual funds and will be able to establish this investment avenue as a favorable one in the financial market.

**HM Model:**

The results show positive gamma values for nine of the funds but except one all of them are not significant statistically. This again proves the findings of the TM model that the fund managers of the top performing funds do not exhibit remarkable ability to time the market.

This model has the ability to judge the performance of the fund managers when the market switches from a bullish to a bearish phase and vice-versa. Hence, it is able to analyze the market timing skills of the fund managers in these conditions.

The empirical findings of this model suggest the absence of any market timing skills in the fund managers of top performing mutual funds. Thus, it can be concluded from the above findings that as shown by the previous models, this model is also not an exception in terms of the results and it confirms the fact that the superior performance of the top 15 sample mutual fund schemes is merely because of the market movements. This emphasizes the fact that to gain the confidence of investors and to attract them towards mutual fund schemes, the fund managers should enhance their technical knowhow. This will enable them to switch from high beta stocks to low beta ones when the market turns from bullish to bearish and vice-versa. In this way, they will be able to provide an extra edge to the fund portfolios over market portfolios and eventually, increase the penetration of mutual funds in the financial market.

Even though the existing literature as well as practical observations reveal that the financial advisors have access to a variety of tools and accurate real-time information on his/her computer, but as shown by the findings and results of the study, the advisors are not properly trained to use
these tools and information in order to guide their clients. As a result, they used their perception to select the most appropriate schemes for their clients. This has actually, diminished their professional excellence which they should possess for working in this industry.