Second and the third chapters include the theories and conceptual framework of investment factor along with the theory relating to the seven different investment alternatives.

From the fourth chapter to the sixth chapter analysis of saving's function college teachers in Madurai is attempted. These discussions in these chapters are related to the investment pattern of the investor, various aspects that motivate them to choose an investment option, detailed information and present trends about the seven investment alternatives taken for the study and measuring the attitude of investors through the scaling techniques,

The seventh and final chapter comprises the summary of findings, conclusion from the study and suggestions to the investors, financial institutions and policy makers.

Chapter - II

Investment Avenues and the Investment Pattern-I

This chapter discusses different investment avenues available for the investors and the investment pattern adopted by them are discussed.

2.1 Introduction

The money one earns is partly spent and the rest is saved for meeting future expenses. Instead of keeping savings idle, a person may like to use the savings in order to get returns in the future. This is called as investment. In an economic sense, an investment is the purchase of goods that are not consumed in present but are used in the future to create wealth. In finance, an investment is a purchase of financial or physical asset with the idea that the asset will generate income in the future or appreciate to be sold at a higher price later. Mere earnings will not help one to make the future secure but the investment prepares anyone to meet his personal and family needs with unforeseen emergencies. Therefore it becomes more important to invest one's surplus funds with a great measure of thoughtfulness and planning.

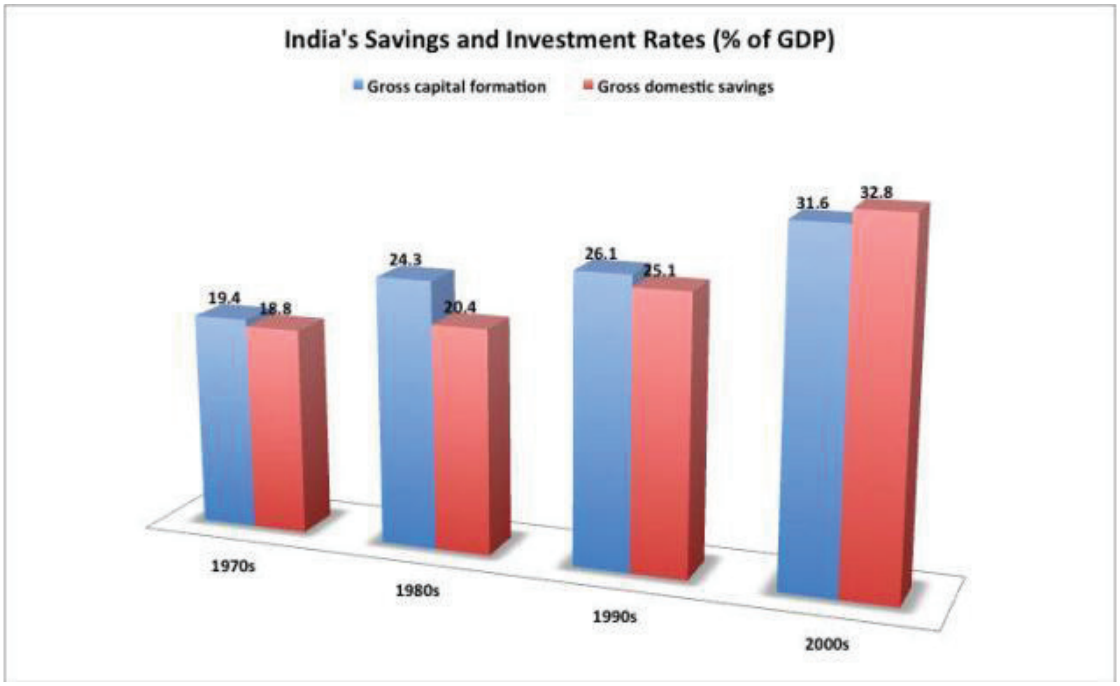
The next reason is that one needs to invest wisely to meet the cost of Inflation. Inflation is the rate at which the cost of living increases over a period. The cost of living is simply termed to be what it costs to buy the goods and services to fulfil one's need to live but inflation causes money to lose value and results in reduction of purchasing power of the individuals due to the principle of time value of money. It is a known fact that a rupee received today is not equivalent as the same received tomorrow. By investing early, it allows investments to grow in terms of capital and returns. The alternate is the concept of compounding increases in income by accumulating the principal and the interest or dividend earned on it, year after year to grow into a lump sum money.

In addition, there is a thrill in the investment decision making from the major success or setback along with the agony associated with the different investment options available for an investor. Investing is not a game but a serious subject that can have a major impact on investor's future well being. It makes an ordinary person to become wealthy or a wealthy man to become a pauper. The investment process consists of two tasks; the first one is security analysis, which focuses on the assessing of the risk and return characteristics of the available investment alternatives. The second one is portfolio formation, which is also called as investment pattern. Harry Markowitz in 1950's was the first person to suggest the portfolio theory which made intuitively small investors to know the benefits of diversification and made them understand the value of having a diversified asset portfolio.

However, diversification across different asset classes and investment avenues is a significant criterion, which seems to be highly essential to safeguard the hard-earned money to grow and prosper in the current uncertain times where the economy is highly fluctuating due to the global economic setbacks. In fact, there are two primary reasons for diversifying the portfolio. The first reason is to take the maximum advantage of the present market conditions and the other is to protect oneself against global downturns. The basic concept of the investment pattern is to divide the investments amongst different asset classes and other options, where the returns are made inversely proportional to each other.

An investment can be described as perfect if it satisfies all the needs of investors. Therefore, the starting point is searching for a perfect investment. This has to be examined according to the investor expectations, attitude, and perceptions about investment options. Most of the investors and advisors spend a great deal of time understanding the merits of the thousands of investment options available in India. However, they spend a very little time, in diversifying their funds taking into account their unique needs as investors. If a rational understanding persists between the risk-return principle among the investors aiming to be cautious while choosing the investment options more wealth could be created. This fact benefits both the investors and the country at large aiding towards capital formation. In the chart 2.1, a comparison between the gross capital formations in India with the gross domestic savings for four decades was shown this makes us understand the total investment, which is channelized into productive growth. In the year, 2000 Gross capital formation was lower than Gross domestic savings. This showed that the domestic savings of the households were not funded into financial assets hampering the industrial and the economic growth.

Chart 2.1



Source: India's Faltering Growth by C. P. Chandrasekhar, THE HINDU on 28th March 2012

2.1.1 Definition of Investment

"Investment can be defined as commitment of funds that is expected to generate additional money. It may also be described as a vehicle into which funds are placed with the expectation that the funds would increase in value or would generate some return"[41].

The term investment refers[42] to exchange of money wealth into some tangible wealth. The money wealth refers to the money which an investor has and the term tangible wealth refers to the assets the investor acquires by sacrificing the money wealth. By investing, an investor commits the present funds to one or more assets to be held for some time in expectation of some future return. Assets are to be held in expectation of some future return in terms of interest, dividend or capital gain.

41 www.Investment Kit.com -14th March 2012

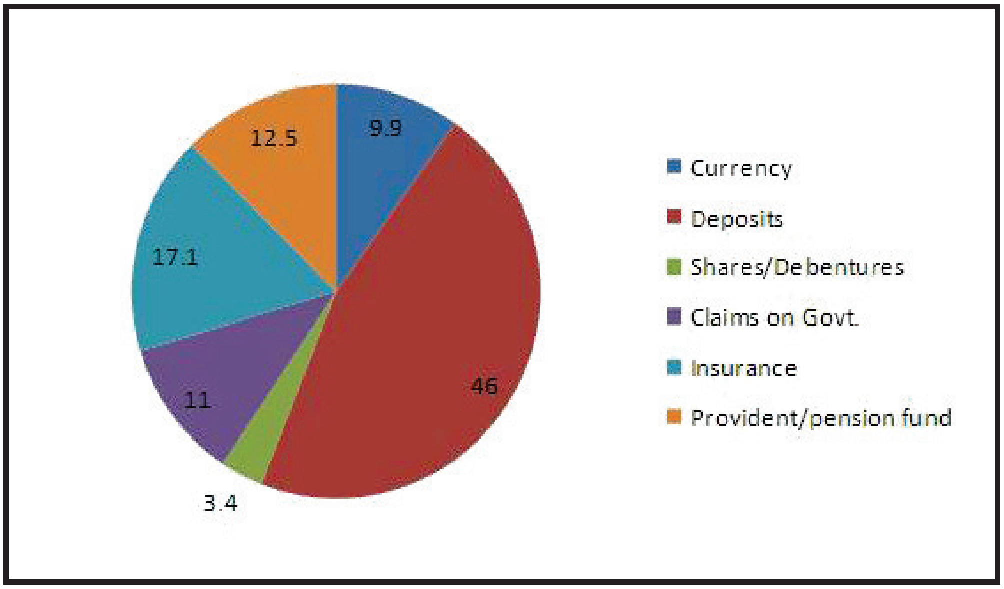
42 Rustagi R.P. Investment Analysis and Portfolio Management, Sultan Chand & Sons, Third Edition, 2010

2.2 Investment pattern

The household sector savings is distributed into various asset classes depending upon the perception, attitude and opinion of the investors from time to time. The spread of the assets may take form of equity, debt and contractual savings or in other financial and physical assets. This can be seen vide Chart 2.2 However this primarily depends on the volume of savings, investment objective, risk taking ability, related source of information, Government policy, inflationary pressures and global impact. The pattern of investment also involves consideration of various factors while they choose the different investment options like allocation of resources, time frame, percentage of allocation and types of schemes. The pattern of investment of the investor cannot be stagnant but will be dynamic undergoing changes at various points of time.

Chart 2.2

Investment Portfolio of Indian Households 1990/91 to 2010/11

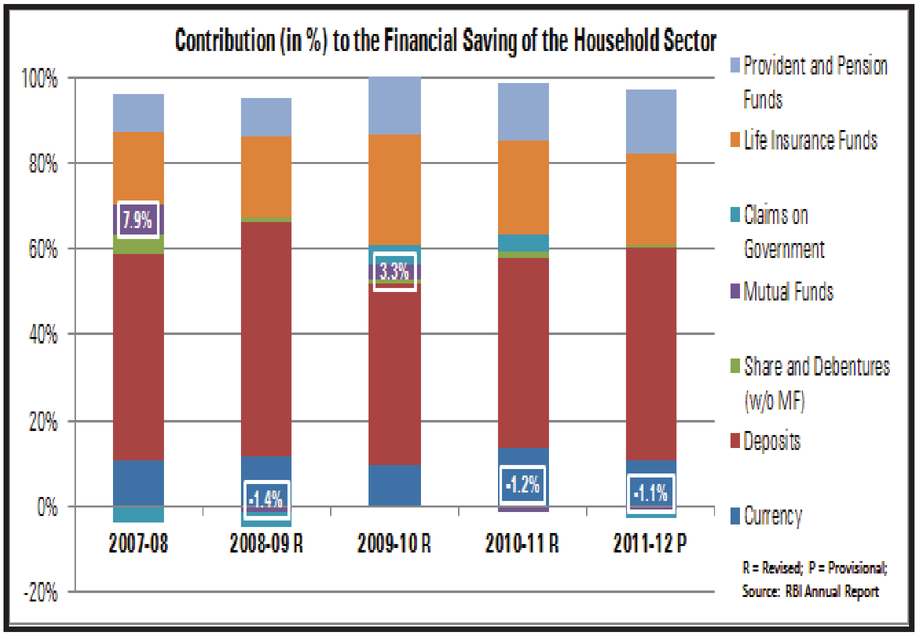


2.2.1The Changing Pattern of Indian Household Savings

The Indian investment pattern is undergoing lot of changes as a result of numerous factors. And moreover, the household savings in India had experienced a variety of changes over the past one or two decades. The changes in lifestyles and consumption models in a developing country like India had also contributed towards those variations. Indian economy had undergone many a rise and fall in the household savings rate over the years. This might have resulted due to the variable composition of savings over the passage of time. At present, the Indian economic infrastructure is passing through structural reforms and this is also reflected in the changing pattern of Indian household saving. According to the Reserve Bank of India, household savings is the biggest constituent of the aggregate savings in India. The pattern of investment followed by the investors bundled according to some technical and scientific approach is known as portfolio. This forms the baseline for any investor to manage both his financial and physical assets. This management cannot be done without ample financial knowledge. Therefore investors should have an idea about the concept of portfolio management. Chart 2.3 explains this phenomenon.

Chart 2.3

Categories of Financial Savings of the Household Sector



Source: RBI Annual Report

2.3 Introduction to Portfolio Management

"Portfolio means combined holding of many kinds of financial securities i.e. shares, debentures, government bonds, units and other financial assets."[43] The term investment portfolio refers to the various assets of an investor which are to be considered as a unit. It is not merely a collection of unrelated assets but a carefully blended asset combination within a unified framework. It is necessary for investors to take all decisions as regards their wealth position in the context of portfolio. Making a portfolio means putting ones eggs in different baskets with varying element of risks and returns. The object of a portfolio is to reduce risk by diversification and getting maximum gains. Thus, portfolio is a combination of various instruments of investment. It is also a combination of securities with different risk-return characteristics. A

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43 Bandgar P.K. (Dr), (2007) investment and portfolio management, 'security analysis and portfolio management', (Vol. 2No.5 ,pp.12-14

portfolio is built up out of the wealth or income of the investor over a period of time with a view to manage the risk-return preferences. An analysis of risk-return characteristics of individual securities in the portfolio is made from time to time and changes that may take place in combination with other securities are adjusted accordingly. The object of portfolio holding is to reduce risk by diversification and maximize gains.

Portfolio management is an art and science of making decisions about investment mix and policy, matching investments to objectives, asset allocation for individuals and institutions, and balancing risk against performance.

2.3.1Portfolio Management Process

The following criterion is to be adopted in managing an investor's portfolio.

- ❖ Identification of the investor's objectives, constraints and preferences.
- ❖ Strategies are to be developed and implemented in tune with investment policy formulated.
- ❖ Review and monitoring of the performance of the portfolio.
- ❖ Finally the evaluation of the portfolio and make some adjustments for the future.

In today's world, everybody is aspiring for money as it is considered as a road to happiness. For a secure life and for a bright future, people had started investing. Every time the investors are confused with their investment avenues and their risk return profile. So, even if we focus on the past, present or future, investment is such a factor that needs constant up-gradation as the economy changes.

Portfolio Management Services (PMS) is a specialized service which helps the investors to carefully choose the interwoven asset consolidation that intuitively helps an investor to make optimum returns. It offers a range of specialized investment strategies so as to capitalize on the opportunities present in the market. Any form of investing requires time, knowledge, and the right mind-set and continuous monitoring. This could be effectively done by an expert in the field known as portfolio manager or financial advisor

Portfolio manager strategizes to deliver consistent returns while keeping in mind the risk appetite of the investors. Every portfolio manager is skilled and has a well-defined investment philosophy and a strategy which acts as a guiding principle. The investor is relieved from all the administrative hassles that occur while investing. Moreover the investors receive periodic reports on their portfolio performance as well as on other aspects and required guidelines for investments. Investments are tracked on a continuous basis to maximize returns.

The relationship manager defines the financial goals and advises the right product mix. Personalized service is given that ensures that they receive periodic updates and also the account performance reports. Portfolio managers manage stocks, bonds, and mutual funds of their clients by considering their personal investment goals as well as their risk preferences. This is convenient for the investors who involve themselves in regular investment activity but for the investors who does it occasionally should try to frame a specific pattern for themselves and review their investments periodically..

2.4 Vitality of Inflation as a Reason for Savings and Investment

By investing early, one allows their investments more time to grow, whereby the concept of compounding increases the income, by accumulating the principal and the interest or dividend earned on it, year after year. The three golden rules for all investors are invest early, invest regularly, and invest for long term and not for short terms. Investing is not a game but a serious subject that can have a major impact on investor's future well being. Virtually everyone makes investments. Even if the individual does not select specific assets such as stocks, investments are still made through different investment alternatives.

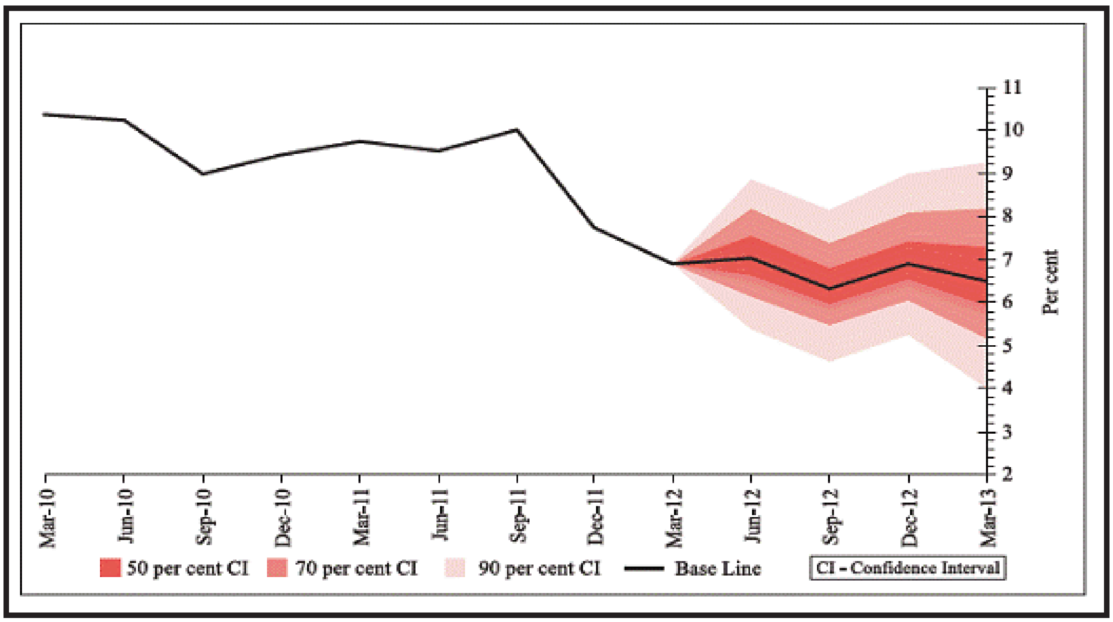
The important reason one needs to invest wisely is to meet the cost of inflation. The cost of living is simply what it cost to buy the goods and services one need to live. Inflation causes money to lose value because it will not buy the same amount of a good or service in the future as it does now or did in the past. The sooner one starts investing the better so that his funds will be secluded. Chart 2.3 below presents the projection of inflationary spiral for the year 2012-13.

It is important to re-emphasize that although inflation had remained persistently high over the past two years, during the 2000s, it averaged around 5.5 per cent, both in terms of WPI and CPI, down from its earlier trend rate of about 7.5 percent. Given this record, the conduct of monetary policy will continue to condition and contain perception of inflation in the range of 4.0-4.5 per cent. This is in line with the medium-term objective of 3.0 per cent inflation consistent with India's broader integration into the global economy. Keeping this in mind the investors need to plan their savings and investment.

Many individuals find investments to be fascinating because they can participate in the decision making process and see the results of their choices. Not all investments will be profitable, as investors will not always make the correct investment decisions over the period of years. However, they should earn a positive return on a diversified portfolio. In addition, there is a thrill from the major success, along with the agony associated with the stock that dramatically rose after the act of selling or not purchased by the investor. Perhaps the investor has to carry out investment planning which focuses on identifying effective investment strategies according to the investor's objective ordered out along with the risk appetite and financial goals. There is a wide variety of investment options, including shares, savings schemes, mutual funds, bank deposits, real estate, Gold and insurance schemes. Through investment planning, the investor can identify the most appropriate portfolio mix.

Chart 2.4

Projection of WPI Inflation (y-o-y) 2012-13



Source: Monetary policy statement of RBI dated 17th April 2012

The Reserve Bank of India (RBI) had stated in its annual report that the net financial savings of the household sector declined further to 7.8 per cent of GDP in 2011-12 from 9.3 percent in the previous year and which was earlier at 12.2 percent in 2009-10.The fall was mainly due to high inflation being the major devastating factor. The inflation had hit the overall economical growth resulting in decline of small savings and affecting the growth in households' hold saving in bank deposits, currency and life funds. "The persistence of inflation at a high average rate of about nine per cent during

2011-12 further atrophied to stave off the downward pressure on their real consumption or lifestyle".[44]

RBI report said two years of high inflation amidst wide fiscal and current account deficits had an adverse impact on welfare. "Poor households are unable to maintain the consumption levels at current prices and therefore, they are particularly worse off in an inflationary situation," said RBI Chairman Mrinal.

With real interest rates on bank deposits and instruments such as small savings remaining relatively low and the stock market adversely impacted by global developments, households had found refugee in investment in valuables like gold and other precious metals. The valuables had increased from 1.3 per cent of GDP in 2008-09 to 2.8 per cent in 2011-12 but this would adversely affect capital formation resulting in poor economic growth.

2.5 Types of Investment Avenues

In India, one can invest savings in wide array of investment instruments due to the presence of knitted effective financial system, which is interlinked and interdependent. Present day's investors are more privileged as they have thousands of instruments which are financial or non-financial in nature. There are many factors that affect one's choice of investment. Millions of Indians buy fixed deposits, post office savings certificates, stocks, mutual funds, gold, silver, or make similar investments in insurance policies. They all have a reason for investing their money. Either they want to make their future secure or meet some emergencies or people want to supplement their retirement income when they reach the age of 60, while others want to become millionaires before the age of 40.

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[44] Available at: http//www.forum.onestopmba.com/forum_ posts.asp?TID=516

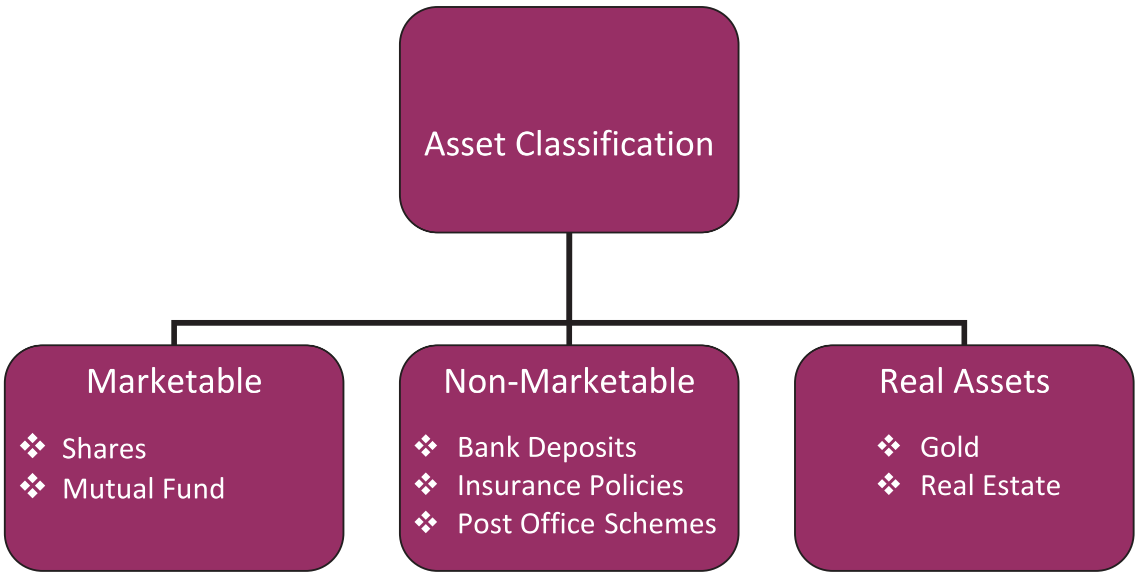
Large numbers of investment avenues are available for the investors as the country's economy is growing in a faster pace with the advent of industrialization, corporate emergence, and mushroom growth of financial institutions. This is also achieved through the initiative taken by the government through financial reforms and the efforts of the regulatory bodies to promote awareness among the investors and encourage the investment culture through various innovative schemes and financial reengineering. Some of them are marketable and are in liquid form while others are non –marketable, some of them highly risky while others are almost risk less. The investor has to choose proper avenues, which would suit their investment strategy depending upon their specific need, risk preference, and return expected. While choosing the investment choices which are available one must select the most appropriate one.

The selection of the alternatives may be done either by the investor themselves or the professional financial advisors dealing with the investment planning. But they must know thoroughly about the various investment choices and how these could be chosen for attaining the overall investment objectives through logical reasoning.

There are a large number of investment instruments available today in the market. In this study an attempt is made to enable the investors to have a clear idea about the various avenues of investment and its classification by grouping them as marketable and non marketable financial assets with ample information and facts. Even though greater funds are channelized from the household sector in domestic savings, major share of the investments circulate only on very few investments, as investors are not aware of the wide variants, which are offered in each of the investment options. It is the need of the hour that there should be rational spread into varied investment options. It is felt strongly that not only awareness is essential but also good investment pattern by balanced portfolio framing is required which could be achieved only through high interest in this field of finance. This study, had concentrated particularly on seven different investment options because these options are most commonly found in the investment portfolio of an investor. The important aim behind choosing these seven alternatives is investor needs to have an in-depth understanding regarding the types, classifications, and latest trends thereby end up in the action of successful investing resulting in wealth creation. Chart 2.1 explains these details.

Figure 2.1

Marketable and Non- Marketable Assets



2.5.1 Shares

A share is a unit of measure of a shareholder's interest in the total capital of the company. Share capital of a company is divided into a large number of equal parts and each part is known as a share. According to Companies Act, a company can issue two types of shares -Preference and equity.

Shares are marketable instruments issued by the companies in order to raise the required capital. Shares are issued by every company, which goes public. These are very popular investments, which are traded every day in the stock market and the value of the share at the end of the day decides the market value of firm.

2.5.1. I Equity Investments

Equities are a type of security that represents the ownership in a company. Equities are traded in stock markets. They can be purchased through stock exchanges or initial public offering. Investing in equities is a good long-term investment option as the returns on equities over a long time horizon are generally higher than most of the other investment options. Their investment value and average market price tend to increase irregularly but persistently over the decades as their net worth builds up through the investment of undistributed earnings However, along with the possibility of greater returns comes greater risk. The investor needs to know the different types of equity shares available in the market for investment and particularly should understand about the background and performance of the company in which they would like to purchase the shares. Experts suggest that any individual investors who would like to invest in equity shares for the first time have to purchase in companies, which are monitored closely by the regulatory authorities.

2.5.1. II Types of Equity shares

- Blue Chip Shares
- Income Shares
- Growth shares
- Cyclical Shares
- Defensive shares
- Speculative shares

A) Blue Chip Shares

These are the shares of the companies, which have been doing extremely well in the past few years. These are usually shares of well-established companies. The blue chips companies are part of Sensex and Nifty. The companies, which come under this, are market leaders and have the potential to dictate terms and share price movement in the country. Companies like Reliance, SBI, ICICI, HDFC, ONGC, NTPC, Infosys, TCS, Wipro, HLL, ITC, Tata Steel, DLF etc.., are some of the blue chip companies. The above stated companys' market capital will be more and these scrip's will have impact in line with Sensex and Nifty movement.

B) Income Shares

These are the shares of the companies, which have stable operations. The companies have a high dividend payout ratio and when the dividends paid are high, it implies that the profits saved for the company is less and hence it has fewer opportunities for growth in value, which may not result in higher capital appreciation.

C) Growth shares

These are the shares of companies, which have secured their positions in a particular industry. These shares have less dividend payout ratio as the profits of these companies are invested in further development of the company, which results in high potential for growth. Such shares grow in value and promised high capital appreciation in terms of market value.

D) Cyclical Shares

In every economy, there is a definite business cycle that keeps on operating and the performance of the companies varies with the stages of the business cycle. The prices of the shares of these companies are affected by the variations in the economy. For example sugar sector, fertilizer sector move seasonally. So the investors who like to enjoy the benefit through cyclical movement are required to invest and reap the benefits during the season. However, this required expert knowledge and careful tracking

E) Defensive shares

These are the shares of the company whose performance does not change with the changes in the economy. The price movement of these types of shares will have steady but slow growth. Investors who are cautious but even then like to invest in equity shares can make an analysis of such shares to invest.

F) Speculative shares

These type of shares traded in the stock markets have lot of speculative movement. It is of high risk in nature but gives very good return in the short term. However, the value of the scrip tends to fall sharply. It is probably suited for intraday trading .Investors are required to watch the trend of these shares carefully. However, this type cannot be suitable for normal investors.

G) Rajiv Gandhi Equity Saving Scheme

The government is striving very hard to bring reforms to make the economy grow in a sustainable manner. The recent initiative through reforms taken by the government may result in encouraging the retail investors to go for this option of making even the ordinary investors to invest in equity investment, which was not previously preferred by the investors. One of the recent initiatives taken by the government is Rajiv Gandhi Equity Saving Scheme which is described below.

Rajiv Gandhi Equity Saving scheme[45] was introduced in the budget 2012-13 by the government. This is the first of its kind scheme in India which allows the retail investor to invest upto Rs.50,000 directly into equity shares and avail tax benefit 50% percent of investment .

Some of the conditions listed under the scheme to avail tax benefits are

- The investor should have income less than Rs. 10 lakhs in a year.

[45] Vivek Sharma on economic times September 22, 2012

- ❖ The benefit under the scheme will be given to the first time investors into equity market only.
- ❖ Investments will be subject to lock-in period of three years.
- ❖ Tax deduction is given under section 80 CCG but this could be availed only for one assessment year.

Rajiv Gandhi Equity Savings Scheme is not just a tax saving scheme. It offers an opportunity to retail investors to be part of equity culture. The main focus of the government to initiate this scheme was the investors need to invest on their own. Retail investors could take this opportunity to rise to the occasion and enhance their knowledge of equity products and reap benefits from long term investments in equity with tax benefits. By offering this scheme, the government aims at channelizing household savings into stock markets. To make the scheme more attractive for retail investors, the Ministry is also considering reduction in the lock-in period under the scheme to one year from the proposed three years.

2.5.1. III Recent Trends of Equity Investment in India

The word reform is propelling the equity markets again[46]. A series of announcements by the central government had given a positive outlook among investors on this option .Being an emerging economy the capital market of India is not yet mature. The depth in Indian equity market is still lower compared to developed markets. This can be attributed to lower average daily volumes of around Rs. 150,000 crores in National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) put together which is much lower compared to the trading volumes on large international exchanges like the New York Stock Exchange (NYSE) or the London Stock Exchange (LSE).

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[46] http://economictimes .Indiatimes.com/topic/nifty On the title Investment Mantras to beat market Volatility byDr. Nirakar Pradhan / , Apr 10, 2012 The IIFL (India Infoline) group

The patterns of stock market returns are neither stable nor steady. There have been many ups and downs in stock market movements in eight out of 12 years. The market had produced a return of more than +/- 20 per cent in a year. This is because emerging market indices are typically more volatile when compared to those of developed markets.

Although investing in any asset class would depend on the risk taking and financial objective of investors, some financial experts advised investors who belonged to the age group of 30-40 years could allocate a large chunk of their portfolio, say 50 to 60%, to equity as an asset class. "This is because India as a market is at a juncture wherein it will grow more than most of the markets in this category of asset classes over the next three to five years.

Indian market will remain a preferred investment destination for the next 10-20 years given its strong economic fundamentals. Investors with moderate risk appetites can participate in the Indian equity market, despite volatility, to reap inflation-raking handsome returns in the years ahead.

The equity investment market in India is unique and it is looking on to invest more in manufacturing, construction, real estate, healthcare and financial services. A concrete understanding of an equity market and behavioral adjustments are required from the potential investors, who are novel to the equity investment in India and are looking forward to maximize their profits with the sense of being modulated to risk taking.

In order to attain success and generate profits from the market of equity investment in India, it is necessary for an investor to be well versed with certain skills. Subsequent to the capital required, proper research of the challenging market, healthy dosage of patience and subtle managerial skills with high-level scientific soundness in the movement and valuation of securities are also necessary to grab success in the investment market. Domestic equity markets, represented by the Sand P CNX FN Nifty, rose by 8percent in the quarter amidst optimistic domestic and global cues. However, growth in equity assets was capped by profit booking. Recently the market regulator had proposed a facility to alert investors about trades being conducted in their accounts. SEBI had now requested the exchanges to provide the details of transactions through SMS or email to all retail investors based on the client details uploaded by the stockbrokers on the stock exchange system. This would be a positive measure to protect the interest of the investors against brokers and other market entities conducting transactions through accounts of their clients without the knowledge of the investor concerned.

2.5.2 Mutual funds

Investor's Behavior is experiencing a radical change and they are now leaving behind the sacred investment options like the fixed deposits, company deposits, gold etc and turned their attention towards Equity linked investment options managed through experts. Like most developed and developing countries the mutual fund cult is being catching in India as well.

There are various reasons for this dynamism. Mutual fund makes it easy and less costly for investors to satisfy their need for capital growth, income preservation. In addition this mutual fund brings the benefit of diversification and monetary management through professional management to the individual investor, providing an opportunity of financial success that was once available only to a selected few individuals.

The structure and working of mutual funds could be stated as it is an investment vehicle that allows an investment company to pool money from a large group of small investors and allows a team of professionals usually termed to be fund managers to invest money as one large block with their profound financial knowledge. The reason behind this is that people have little time or interest in tracking a portfolio of investments themselves and more over, investors might lack the market knowledge necessary to make sound investments decisions .They also might not have enough capital to make investments in the capital market as they are fearful about the mismanagement of the money by the brokers and other intermediaries which results in the non achievement of the predetermined investment objective. Because of these reasons, mutual funds though they are popular forms of investment providing cost-efficiency, risk-diversification, professional management, and sound regulation by regulatory authorities like SEBI,AMFI and the central government, the common man is apprehensive of them.

2.5.2. I Meaning of Mutual Fund

A mutual fund is made up of money that is pooled together by a large number of investors who give their money to a fund manager to invest in a large portfolio of stocks, bonds and other securities.

Mutual funds are a fund managed by an investment company with the financial objective of generating high rate of returns. These asset management or investment management companies collect money from the investors and invest the money in different stocks, bonds and other financial securities in a diversified manner. Before investing they carry out a thorough research and detailed analysis on the market conditions and market trends of stock and bond prices. These things help the fund managers to speculate properly in the right direction.

2.5.2. II Types of Mutual Fund

Mutual fund schemes may be classified on the basis of its structure and its investment objectives. There are wide varieties of mutual fund schemes to cater to the needs such as financial position, risk tolerance and return expectations of the investors. The types given below explain an overview into the existing types of schemes in the mutual fund.

The broad category one had to decide while investing in the mutual fund is that whether investor likes to purchase units in a close ended or open ended fund Based on his need he has to decide to go in for short term or long term investment.

Based on Structure

a) Open-ended Schemes

Open ended mutual funds are much more common than closed-ended funds and meet the true definition of a mutual fund. It is open for subscription on a continuing basis. An open-ended fund can be freely sold and repurchased by investors. It has no maturity period and it is not listed in a stock exchange. The fund manager of an open ended fund has to wrestle and cope up with the volatile fund corpus to maintain some liquidity to meet redemption demand but has to strive hard to sustain the market capitalization.

b) Close-ended Schemes

Close-ended mutual funds are really financial securities that are traded on the stock market. Similar to a company, a closed-ended fund issues a fixed number of shares in an initial public offering, which are traded on an exchange. Share prices are determined not by the total Net Asset Value (NAV), but by investor demand. A sponsor, either a mutual fund company or investment dealer, will raise funds through a process commonly known as underwriting to create a fund with specific investment objectives. The fund retains the fund manager to manage the fund assets in the manner specified.

2.5.2. III Classification of Schemes

Depending on the asset –mix, mutual fund schemes are classified into three broad categories: Equity schemes, Hybrid schemes, and Debt schemes. Within each of these broad categories, there are several sub variants.

Equity schemes

- ❖ Diversified equity Schemes

- ❖ Index Schemes
- ❖ Sectoral Schemes
- ❖ Tax Planning Schemes
- ❖ Arbitrage Schemes

Hybrid Options

- ❖ Equity Oriented or Growth
- ❖ Debt or Income Oriented
- ❖ Variable Asset Allocation

Debt Options

- ❖ Gilt Schemes
- ❖ Mixed Debt Schemes
- ❖ Floating Rate Debt Schemes
- ❖ Fixed Maturity Plans
- ❖ Cash Schemes

Other Schemes

- ❖ Index Funds
- ❖ Fund of Fund Schemes
- ❖ Exchange of Traded Funds
- ❖ Hedge Funds

2.5.2. IV Equity Schemes

Equity schemes are the bulk of their corpus-85 percent to 95 percent or even more-in equity shares or equity-linked instruments. They undertake the risk associated with the schemes and balance is invested in cash. Equity schemes offered by mutual funds in India may be classified broadly into following sub-types.

A) **Diversified Equity Schemes:** As the name suggests, these schemes invest in a broadly diversified portfolio of equity stocks. Typically, such schemes have 20 to 50 or even more equity stocks from a wide range of industries. Example of such schemes is HDFC Equity scheme, UTI Master Share scheme, and Reliance Vision Fund.

B) **Index Schemes:** An index scheme is an equity scheme that invests its corpus in a basket of equity stocks that comprise a given stock market index such as the S and P Nifty Index or the Sensex , with each stock being assigned a weightage equal to the index. The principal objective of an index scheme is to give a return in line with the index. Example of such index schemes are UTI master index and Franklin India index, NSE and Nifty.

C) **Sectoral Schemes**: A sector scheme invests its corpus in the equity stocks of givens sector such as pharmaceuticals, information technology, telecommunications, and power sector. These schemes appeal to investors interested taking a preference on specific sectors. Examples of such schemes are UTI Petro, Franklin InfoTech, Reliance and Pharmaceutical funds.

D) **Tax Planning Schemes**: Tax Planning Schemes or Equity linked savings schemes (ELSS) are open to only to individuals and HUFs. They offer deductions from gross total income to the investors, at present, under Sec. 80C of the Income Tax Act. The investments made to any ELSS are eligible for deduction up to Rs. 1, 00,000 every financial year. Taxes saving schemes are growth oriented and invested predominantly in equities. Franklin India Tax Shield and Reliance Tax Saver Fund are examples of such schemes.

E) **Arbitrage Schemes**: An Arbitrage scheme seeks to capture this element by buying stock in the cash market and selling stock in the futures market. Arbitrage schemes, as they have a market-neutral stance are not exposed to the volatility of normal equity schemes.

2.5.2.V Hybrid Schemes

Hybrid Schemes, also referred to as balanced schemes are invested in a mix of equity and debt instruments. A hybrid scheme may be equity-oriented or debt-oriented or have a variable asset allocation.

A) Equity Oriented Fund

An equity oriented hybrid scheme is tilted in favor of equities, which may account for about 60% of the portfolio, the balance being invested in debt instruments like bonds and cash. Growth schemes are designed to provide optimum returns through capital appreciation over medium to long term. Though there could be a decline in their value in the short- term these schemes deliver results in the long run. It is an ideal option for those in their prime earning years. Examples of equity oriented schemes are HDFC Prudence and Unit Scheme 95.

B) Debt-oriented Fund

Debt- oriented hybrid schemes are invested in debt instruments. The most popular debt-oriented schemes in India are monthly income plans, which typically have a debt component of 85-90 percent dominated by bonds and an equity component of 10-15 percent. Examples of such schemes are Birla MIP and FI India MIP.

C) Variable Asset Allocation Fund

A variable asset allocation scheme is one where the proportions of equity and debt are varied, often based on some objective criterion. For example, in November 2002 UTI introduced an indexed linked plan (ILP), under UTI variable investment scheme. It is an open-ended scheme that dynamically allocates assets between debt and equity under different market conditions. The allocation between equity and debt increases or decreases respectively according to the trend in the market

2.5.2. VI Debt Schemes

Debt schemes invest in debt instruments, bonds, and cash. The wide range of debt schemes currently offered by mutual funds in India may be divided into the following sub-categories: gilt schemes, mixed debt schemes, floating rate schemes, cash schemes otherwise known as money market schemes and fixed maturity plans.

A) Gilt fund

A gilt scheme which is alternatively known as government securities scheme invests only in government funds, which have zero credit risk. The investible funds are invested to the extent of 10-15 percent in government securities. Gilt schemes are invested in gilts of varying maturities: long-term, medium-term, and short-term. Examples, of gilt schemes are Tata GSF and UTI G-Sec.

B) Mixed Debt Fund

Mixed debt schemes invest in government bonds, corporate bonds, and cash instrument. Nearly 30-40 percent of their corpus is invested in corporate bonds, and the balance is invested in cash. Examples of mixed debt schemes are HDFC income and UTI bond.

C) Floating Rate Debt Fund

Floating rate debt schemes invest in a portfolio comprising substantially of floating rate debt bonds, fixed rate bonds swapped for floating rate returns, and cash. Examples of floating rate debt schemes are Grindlays Floating Rate Scheme and Prudential ICICI floating Rate Scheme.

D) Cash Fund Schemes

Cash schemes, are also called liquid schemes, which invest primarily in money market instruments like treasury bills, commercial paper, certificates of deposit, call money and reverse repos and deposits with bank. They also have an allocation of about 25 percent to short-term bonds. The average portfolio maturity of such schemes is less than 150 days. Presently, cash schemes account for the largest share of the mutual fund industry in India because corporates use these schemes extensively for parking short-term surplus funds. This could also be taken up by retail investors who are eager to invest for a short term. Examples of such schemes are HDFC liquid and Reliance Liquidity Fund

E) Fixed Maturity Plans

An important recent innovation in the area of debt schemes is a fixed maturity plan. It is a closed –ended debt scheme that has a fixed maturity period. It comes with a tenure ranging from 30 days to five years. This type of plan has an indicative, but not a guaranteed, return. The corpus of a fixed maturity plan is invested primarily in debt instruments like certificate of deposit and commercial papers as these instruments are traditionally low risk debt products. It is a scheme, which carries very low risk with no interest rate risk as the assets are locked until maturity.

Fixed maturity plans offer a higher post-tax returns compared to competing instruments like bank fixed deposits and various kinds of bonds because of their tax advantage. It has a very low liquidity when compared to bank fixed deposits. Investors are free to choose either a dividend option or the growth option. Under, these schemes the profits are taxed as capital gains in the hands of the investors.

2.5.2. VII Other Schemes

A) Fund of Fund Schemes

A fund of fund schemes takes the idea of investing in a diversified portfolio through a mutual fund scheme instead of investing in stocks or bonds,. This scheme, invests in mutual fund schemes. For example, Prudential ICICI Advisor series was the first Indian fund of fund scheme.

B) Gold Exchange Traded Funds

It is a very recent development in the mutual fund industry. The market regulator SEBI allowed Gold Exchange Traded Funds (ETFs) in India. Gold ETFs enable investors to purchase and sell shares of a mutual fund whose primary asset of investment is gold. India is the largest consumer of gold with an annual demand of about 700 tonnes. Experts say that unlike gold coins and bars, for which most jewelers offer only an exchange, Gold ETFs are sold at transparent prices across the country. No sales tax, VAT, wealth tax or securities transaction tax act as added sweeteners to this scheme.

The first gold ETF was launched in February 2007.There are as many as 25 different Gold ETF schemes across 14 different fund houses at present. These products, which track the metal's prices, provide an opportunity to investors to accumulate gold over a given period since they can be purchased in small quantities. In the last 3 months, inflows worth Rs 500 crores had come into gold ETFs. In 2011-12, over Rs 3,600 crores was pumped while inflows of Rs 2,250 crores came in 2010-11. Gold ETFs and the category have seen assets under management soar from Rs 138 crores in April 2007 to Rs 11,198 crores in September 2012 -- over 80 times in 5 years.

These funds are listed on the stock exchanges and it can be bought or sold like other stocks or shares. However, the investor should have a Demat account and a share trading account to invest in Gold Exchange Traded Fund. The unit size in Gold ETF is as small as one gram of gold equivalents. Investments in gold ETFs are eligible for tax treatments similar to that in a debt mutual fund. The cost involved is also less and investors do not face the risk involved as in holding physical gold, which is prone to theft or burglary. Some of the popular gold ETFs is UTI Gold ETF, Gold BEES, Kotak Gold ETF and Reliance Gold ETF.

2.5.3. I Recent Trends in Mutual Funds in India

The recent trends since last year clearly suggest that the average investors have lost money in retail equity investment. People have now started realizing the need for an expert intervention in the investment function who have knowledge in stock markets. There are many institutions in India, which provide wealth management services.

An average investor has found refuge with the mutual funds. There have been a lot of changes in the mutual fund industry in the past few years. Many multinational companies have bought their professional expertise to manage funds worldwide. All leading newspaper and websites have dedicated themselves to investor's education by projecting all cues about the development regarding the asset management companies in the country.

In the past few months there has been consolidation going on in the mutual fund industry. Mutual funds in India now offer a wide range of schemes to choose. The size of Indian mutual fund industry had recorded a healthy growth over the last 15 years. India can now boast of having dominance in this industry. At present, there are about 30 mutual fund companies managing more than 1000 schemes, which are structured and tailor-made according to the specific needs of the investors.

2.5.3.II Growth of the Mutual fund industry during 2010-2012

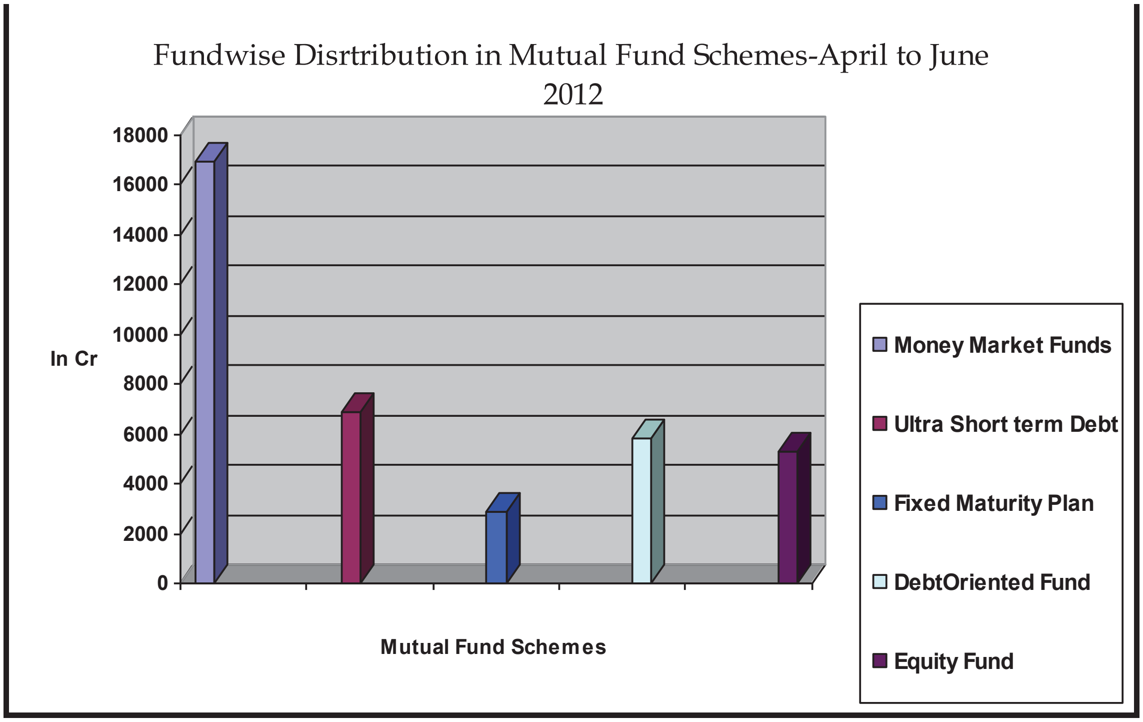
Mutual fund has a profitable and exceptionally bright future if it gathers the same momentum of growth fulfilling the past and future expectations of the market and investors. Mutual funds had mobilized Rs 83,000 crores in 2009-10, SEBI report declared that this significant level of fund mobilization had helped the total asset under management of mutual funds to grow to Rs 7.5 lakh crores as on August 31, 2012. The annual composite growth rate is expected to reach 13.4% during the rest of the decade. It had been observed that in the last five years the mutual fund industry had seen an annual growth rate of 9%.

Investors had put in more than Rs 1.5 lakh crores in various mutual funds in the first five months of the current fiscal year, as against cumulative net outflow of over Rs 70,000 crores in the previous two financial years. At gross level, the mutual funds mobilized a total amount of over Rs 30.4 lakh crores in the first five months of the current fiscal year , while there was redemption worth Rs 28.9 lakh crores resulting in net inflow of about Rs 1.54 lakh crores. A revival in the stock market and various reform measures undertaken by the government and market regulator SEBI may help the mutual fund companies to mobilize still larger amount of funds in the coming months by initiating the investors to invest in equity oriented schemes.

As per the latest data available with SEBI, there was a record stating that the net inflow of funds amounted to Rs 1,53,781 crores between April and August 2012, as against total fund mobilization of Rs 1.24 lakh crores in the corresponding period of the previous fiscal year 2011-12. According to the CRSIL research report, the average AUM of the mutual fund industry reported a 4% increase of Rs 6.92 lakh crores in the April-June quarter 2012 but it was only Rs 6.65 lakh crores same quarter in the previous year 2011-12. .

The debt-oriented funds, especially money market funds, saw the highest gain in assets across categories up to 11.5% to 24% of the industry assets. It is said that assets of money market funds or liquid funds grew by Rs 16,900 crores, ultra short-term debt funds by Rs 6,900 crores, fixed maturity plans (FMPs) by Rs 2,900 crores and other debt-oriented funds by Rs 5,800 crores over the past quarter. However, equity funds witnessed a decline of Rs 5,300 crores in AUM owing to the weak sentiments prevailing in the asset class in the previous quarter. Fund wise distribution is shown vide chart 2.5

Chart 2.5



Source: http://economic time's .India times .com/topic/mutual funds

This Regulatory Board had improved the market surveillance to protect the investor's interest. NAV is directly proportionately to the bearish trends of the market. Indian mutual funds reveal that it is a multi-dimensional investment avenue. It provides lot of scope for understanding the scenario as the mutual funds schemes are rated by CRISIL and Value Research India and others. In order to invest in the best mutual funds, it is important to know about the schemes and perform a comparative study among the different schemes offered by the company .The performance of the fund scheme is always indicative in the context of the performance of the type of schemes chosen by the investor.

The combined effect together may result in a turnaround of the overall markets. Thus, it seems to be the right time to invest in equity based mutual fund schemes, especially the large cap or diversified category. The investor is required to make a careful consideration before making investment in mutual funds as they are subject to