CHAPTER VI

SUMMARY OF FINDINGS AND CONCLUSION

6.1 FINDINGS

The major findings of the study are summarized as under:

6.1.1. Performance evaluation of Index Fund’s monthly returns

The following are the results of analysis of performance of index mutual fund schemes.

- IIFL Dividend Opportunities index fund is the best performing scheme based on high average monthly return. Among 23 index mutual fund schemes IIFL Dividend Opportunities index fund have earned the highest average monthly return (1.31%) and outperformed its benchmark return of 1.25%.

- The lowest risk (SD) involved scheme is the LIC Nomura MF Index-Sensex Advantage Plan.

- Reliance Index Fund - Sensex Plan which have earned return less than average return for many time (highest negative skewness value).

- IIFL Dividend Opportunities Index Fund that gives same return for more time (high kurtosis value).

- The highest volatile nature is observed from the Standard deviation of schemes. IDBI Nifty Junior Index Fund has the high volatile nature.

- The lower the ratio of standard deviation to mean return, the better your risk-return tradeoff. The lowest coefficient of variation is seen in IIFL Dividend Opportunities Index Fund scheme.
6.1.2. Performance evaluation of Index Fund schemes

The significance of the difference between the average return of Index Mutual Fund equity schemes is tested using the technique of analysis of variance (ANOVA). It is found that there is significant difference in the returns of index fund schemes during the period of study. Hence, investors have to select right scheme based on performance.

6.1.3. Performance evaluation of Index Funds with respect to benchmark indices

The hypothesis tests reveal that index funds do not significantly outperform or underperform their respective benchmark indices, inferring that index mutual fund schemes have a low tracking error. This result corresponds with the research conducted by Kshama Fernandes (2003) who concluded that it is possible to attain low levels of tracking error under Indian conditions.

From these results it can also be inferred that index funds do not produce any excess returns relative to the benchmark index returns. This, as noted by Rompotis (2008) in his research, is an expected finding since both ETFs and index funds are passively managed and merely try to replicate the return of the index being tracked.

6.1.4. Trends in Gold ETFs, Index Funds and Other ETFs in India

It is found that there are 1826 mutual fund schemes operating in India and the proportion of both the Index Funds and ETFs are very small i.e. 67 schemes accounting to 3.67 per cent. However the more number of schemes introduced in the year 2010.
6.1.5 Performance evaluation of ETF’s monthly returns

The following are the results of analysis of performance of exchange traded fund schemes (ETFs).

- ICICI Prudential CNX 100 ETF Fund is the best performing scheme based on high average monthly return. Among 24 exchange traded schemes ICICI Prudential CNX 100 ETF Fund have earned the highest average monthly return (2.97%) and outperformed its benchmark return of 1.93%.
- The lowest risk (SD) involved scheme is the R*Shares Nifty ETF Plan.
- Motilal Oswal MOShares M50 ETF Fund which have earned return less than average return for many time (highest negative skewness value).
- Motilal Oswal MOShares M50 ETF Fund that gives same return for more time (high kurtosis value).
- The highest volatile nature is observed from the Standard deviation of schemes. Kotak PSU Bank ETF has the high volatile nature.
- The lower the ratio of standard deviation to mean return, the better your risk-return tradeoff. The lowest coefficient of variation is seen in ICICI Prudential CNX 100 ETF Fund scheme.

6.1.6 Performance evaluation of Exchange Traded Funds (ETFs)

The significance of the difference between the average return of exchange traded fund schemes (ETFs) is tested using the technique of analysis of variance (ANOVA). It is found that there is significant difference in the returns of ETF schemes during the period of study. Hence, investors have to select right scheme based on performance.
6.1.7 Performance evaluation of ETFs with respect to benchmark indices

The hypothesis tests reveal that exchange traded funds (ETFs), mostly, do not significantly outperform or underperform their respective benchmark indices, inferring that exchange traded fund have a low tracking error.

Besides, ETFs which tracking CNX Midcap and CNX Nifty Total return do significantly underperform their respective benchmark indices, inferring that ETFs have high tracking error.

From these results it can also be inferred that exchange traded funds (ETFs) do not produce any excess returns relative to the benchmark index returns. This, as noted by Rompotis (2008) in his research, is an expected finding since both ETFs and index funds are passively managed and merely try to replicate the return of the index being tracked.

6.1.8 Comparison between Index Funds and ETFs

The hypothesis tests show that index funds do not significantly outperform exchange traded funds (ETFs). From these results it can also be inferred that index funds do not produce any excess returns relative to the exchange traded fund (ETFs) returns. Therefore, these results are comparable to work done by Rompotis (2008) as well as Poterba and Shoven (2002) who concluded that ETFs and index funds achieve similar performance records.

6.1.9 Performance evaluation of Gold ETF’s monthly returns

The following are the results of analysis of Gold exchange traded fund scheme’s monthly returns:
Birla Sun Life Gold ETF fund is the best performing scheme based on high average monthly return. Among 14 exchange traded schemes Birla Sun Life Gold ETF Fund have earned the highest average monthly return (19.24%) and outperformed its benchmark return of 0.74%.

The lowest risk (SD) involved scheme is the R*Shares Gold ETF Plan.

All gold exchange traded fund schemes have earned return equal to average return for many time (positive skewness value).

All gold exchange traded Fund gives same return for more time (high kurtosis value).

The highest volatile nature is observed from the Standard deviation of schemes. Birla Sun Life Gold ETF Fund has the high volatile nature.

The lower the ratio of standard deviation to mean return, the better your risk-return tradeoff. The lowest coefficient of variation is seen in Religare Invesco Gold Exchange Traded Fund scheme.

6.1.10 Performance evaluation of Gold Exchange Traded Funds (GETFs)

The significance of the difference between the average return of gold exchange traded fund schemes is tested using the technique of analysis of variance (ANOVA). It is found that there is no significant difference in the returns of gold ETF schemes during the period of study. Hence, investors may choose any one of these schemes.

6.1.11 Performance evaluation of Gold ETFs with respect to Gold price

The hypothesis tests reveal that gold exchange traded funds (ETFs) do not significantly outperform or underperform their respective benchmark, inferring that gold exchange traded fund have a low tracking error. From these results it can also be
inferred that gold exchange traded funds (ETFs) do not produce any excess returns relative to the benchmark returns.

6.2 CONCLUSION

By the help of present study following conclusion is drawn.

This study investigated the performance of ETFs, Gold ETFs and Index funds relative to their respective benchmark. The literature reviewed provided a background on the performance of ETFs, Gold ETFs and Index funds relative to their tracking indices and the different types of investment strategies. As far as ascertained, very few research has been conducted on the performance of ETFs and Index funds. This study will hopefully be the start of building-up sizeable record of the performance of ETFs and Index funds in India.

6.2.1 ETFs and Index Funds performance versus benchmark indices

It can be concluded that index funds do not significantly outperform or underperform their respective benchmark indices. Exchange traded funds (ETFs), mostly, do not significantly outperform or underperform their respective benchmark indices. But, ETFs which tracking CNX Midcap and CNX Nifty Total return do significantly underperform their respective benchmark indices. It can therefore be concluded that on average index funds have slightly lower tracking error than ETFs in this category.

The performance of ETFs, and Index funds, in this study, are the same as their benchmark indices, since these investment tools merely try to replicate the return of the tracking index.
6.2.2 ETFs versus Index funds

It can be concluded that index funds do not significantly outperform or underperform ETFs. This conclusion is in agreement with research conducted by Rompotis (2008) as well as by Poterba and Shoven (2002).

6.2.3 Gold ETFs performance versus Gold price

It can be concluded that Gold exchange traded funds (ETFs) do not significantly outperform or underperform their benchmark. The performance of Gold ETFs, in this study, was the same as their benchmark, since these investment tools merely try to replicate the return of the tracking index. Gold ETF Fund have earned the highest average monthly return than index funds and equity ETFs.

6.3 SIGNIFICANCE OF FINDINGS

This study has proven that the performance of ETFs, Index funds and Gold ETFs are the same as their benchmark indices. So an investor looking for a long-term passive investment strategy shall consider to invest in index funds to get optimum returns. This study has also proven that gold ETFs have earned highest average monthly return than index funds and equity ETFs. So an investor may consider this investment alternative for diversification and short term gain. Therefore a combined investment portfolio should be considered to yield a higher reward-to-variability ratio.

6.4 SUGGESTIONS

In India, although ETFs have been in existence for more than a decade, they are making their presence felt slowly. The results of the study have important policy implications for Asset Management Companies (AMCs) as they can position their products suitably in the market. The major reason why ETFs have not caught up as
much in India as they have in the United States of America and in Europe is probably because of the lesser incentives to market ETFs as compared to other mutual fund scheme, which earmark higher amounts for marketing their products. Moreover, the ETFs in India are passively managed. If the ETFs were to be actively managed (thereby giving higher returns to the investors), ETFs would definitely catch the attention of the investing fraternity. Policymakers can come up with better policies to enhance the growth of ETFs. Moreover, since ETFs are one of the modes of disinvestment in the future, policymakers can actively consider promoting the growth of ETFs.

Index funds on the other hand track the market and this strategy is not concerned with asset selection but only to minimize the cost. ETFs are also similar to this strategy. However, due to differences in management fees, transaction fees and taxation efficiency ETFs have lower expense ratios. So, ETFs should have better performance comparing to index funds.

6.5 RECOMMENDATIONS FOR FURTHER RESEARCH

- This study can be revisited in a few years, when more data becomes available, so that yearly, rather than monthly, returns can be used.
- Future research shall include funds that have been terminated due to insufficient data, so that a more accurate performance of ETFs and index funds can be recorded.
- Future research may be conducted on the effect of various taxes such as dividend tax, securities transaction tax etc., on the performance of ETFs and index funds.