Chapter V

SWOT ANALYSIS
- MUTUAL FUNDS
- STAKE TRADING
SWOT ANALYSIS OF
MUTUAL FUNDS

STRENGTHS

1. SEBI/AMFI has taken an active role in protecting investor interests through Regulations, Certifications, and Code of Conduct. [1]

2. Open product architecture i.e. distributors offer a range of mutual fund products to choose from. [2]

3. It has often acted as a counter balance to equity market volatility, market liquidity.

4. Professional Management of funds by experienced fund managers supported by a research team. [3]

5. Diversification of funds. All the eggs are not placed in one basket. Through mutual funds, diversification of portfolio can be achieved at a fraction of the cost.

6. Convenient administration i.e. reduction in paper work and saving of time. [4]

7. Medium and long term mutual funds have the potential to provide high returns.
8. Mutual funds take advantage of the economies of the scale. The funds handle investment of a large number of people; they are in a position to pass on relatively low brokerage and other costs.

9. Mutual funds provide easy liquidity to the investors.

10. Mutual funds provide transparency i.e. information on each scheme about the specific investments made there under and so on. [5]

11. Currently most funds have regular investment plans, regular withdrawal plans and dividend reinvestment schemes. A great deal of flexibility is assured in the process.

12. Mutual funds offer a variety of schemes to suit varying needs of the investors.

13. Mutual funds also provide rebate in taxes.

**WEAKNESSES**

1. Limited channels of distributions i.e. Banks and agents account for more than 70% of distribution of mutual funds e-channels have not evolves as a source for acquiring customers. [6]
2. Lack of adequate efforts on the part of wealth managers/distributors in educating the market about mutual products has resulted in low levels of penetration. [7]

3. Absence of global product policy on overseas mutual funds products to be offered in the Indian market. [8]

4. Shortage of skill and competent financial advisors. [9]

5. Mutual funds offers are subject to market risk.

**OPPORTUNITIES**

1. Out of the total household savings invested in financial assets the investment in Mutual fund is less than one percent. So the chance of increasing investment in mutual fund is very high. [10]

2. Robust performance of Indian capital market vis-à-vis their counterparts abroad. [11]

3. HNWI / Mass affluent growing at a CAGR of 22% estimated that there are 15.4 million Indian house hold. [12]

4. Investors are taking more active part. Proportion of new money economic growth increasing as a result of in their financial affairs.

5. Resident individuals having $25,000 in asset abroad have been permitted to invest. Attractive for overseas Mutual funds.
6. Mutual funds in India are permitted to invest up to 10% of their Net Assets abroad in foreign securities subject to a maximum of $50 million.

7. With a well sustained saving rate and interest regimes the time is ripe for the mutual fund industry to steadily rake in larger share of the investor’s wallet.

8. The size of global mutual fund industry is huge and is increasing very rapidly. Global assets under management (AUM) are in excess of US$ 16 trillion. The analysts have predicted a global compounded annual growth rate in excess of 8% for industry globally between 2007 and 2009.

THREATS

1. Large number of substitutes available to the Indian investor- Deposits, equities, Real estate. [13]

2. In India low risk investment products like PPF offer higher returns.

3. Investments abroad will need to closely tracked to ensure that the source of funds is legitimate and to protect against money laundering- Onus on banks to ensure the same. [14]
4. As the mutual fund industry opens up it will be more a large number of Indian and vigilance of schemes offered by difficult for regulators to keep foreign players.

5. As more foreign players enter India through Joint venture route, investors in India will need to educate themselves about risks inherent in investing abroad like foreign exchange risks, tax implications etc.
SWOT ANALYSIS OF
STAKE (SHARE) TRADING

STRENGTHS

1. TRANSPARENCY: India has a history and tradition of transparency and due process in government that can be applied to the process of granting public infrastructure contracts and regulating performance and payments. This tradition of democracy is a distinct advantage that other developing countries do not have. [15]

2. Another great strength of Indian companies is their ability to put teams of highly trained people onto challenging tasks. They can draw on a labour pool that is perhaps the best trained of any in the developing world. [16]

3. SEBI, Govt. and Stock exchanges have taken effective steps to protect investor interests through Regulations, Certifications, Code of Conduct ETC.

4. Indian stock markets provide easy liquidity to the investors.

5. To protect the investors and the trading members several funds have been set up by the stock exchange, like Customer’s protection
fund which provide insurance to the investors in the case of default by a member, trade guarantee fund, broker’s contingency fund insurance cover etc.

6. Online trading system provides greater transparency and fast trading to the investors.

7. Emergence of T+2 system which is better than badla system. [17]

WEAKNESSES

1. Lack of liquidity in most of the markets in terms of depth & breadth. Illiquidity outside the scrips in futures and options may lead to large scale price manipulation in illiquid scrips and lower price realizations in such counters. Poor Indian Accounting disclosures may lead to large scale manipulation of figures by publicly traded companies. [18]

2. Lack of single market due to the inability of various stock exchanges to function cohesively with legal structure and regulatory frame work. These factors only led to the establishment of NSE.

3. Lack of transparency in the operations that affects investor’s confidence.
4. Listing fees on the nationalized stock exchanges and minimum capital requirement is very high.

5. Large numbers of scams in the past have shaken the confidence of the common people.

**OPPORTUNITIES**

1. A large domestic market that is still into traditional fixed income and other government savings is all set to enter the market sooner if not later

2. Outstanding performance of Indian capital market vis-à-vis their counterparts abroad

3. Emergence of large number of well professionally managed and technically well equipped broking houses offering services at a very minimal brokerage charges. [19]

4. Private Indian companies operating on free market principles are the best means to deliver the massive public infrastructure improvements that are needed. Local, state and national government have shown themselves, over the last 50 years, to be incapable of either doing or administering this work.
5. HNI / Mass affluent are growing at a CAGR of 22%. It is estimated that there are 15.4 million Indian household.

6. Investors have started taking more active part. Proportion of new money economic growth increasing as a result of their financial affairs. [20]

7. With a well sustained saving rate and interest regimes the time is conducive for the share market industry to steadily rake in larger share of the investor's wallet.

THREATS

1. Global economic slowdown is a major threat for the growth of Indian stock exchanges. The investment in the shares may slow down.

2. Currency mismanagement is another threat for the growth and development of Indian stock exchanges.

3. The high global commodity prices are all set to make an adverse impact on the growth and development of Indian stock market.

4. Many of the index scrips are trading at a very high PE ratio and therefore are overvalued. Major correction in the prices of these stocks can cause loss of several thousand rupees of the investors.
5. The attitude of govt. relating to FII's taxation can make an adverse impact on the growth and development of the Indian stock exchanges.

6. The second major threat to the growth of Indian companies and stock market is the serious lack of public infrastructure. Roads, harbours and airports, and sewer, water, power and communications systems all urgently need to be upgraded. It is no secret that the sorry state of existing infrastructure is already slowing the rate of Indian economic growth. Yet in this urgent need, are also the seeds of a vast opportunity.

7. Previous scams have made a very adverse impact on the credibility of Indian stock market. Strict regulations are required to eliminate the repetition of these affairs.
REFERENCES

1. www.mutualfundsummit.com

2. www.mutualfundsummit.com


11. www.amfi.com