Chapter VII

Summary of Findings, Suggestions and Conclusions
7.1. INTRODUCTION

Indian capital market is growing rapidly since last couple of decades. Indian economy in general and Indian capital market in particular have experienced remarkable changes, especially after the initiation of Liberalised Economic Policy in 1991. Emergence and rapid growth of mutual funds during the last decade can be ascribed to diversified dimensions of Indian capital market. They have become major vehicle for mobilisation of savings, especially from the small and household savers who are averse to risk element for investment in the capital market.

The avenues of corporate investment such as ownership securities, creditorship securities, mutual funds etc., have their own characteristics. Investment in stock market securities needs more involvement in risk bearing with an exception to mutual funds, which offer steady return and capital appreciation with a minimum of risk. A mutual fund operates as a financial intermediary. It sells its units to the public and invests the proceeds in a large number of market securities. The major role of a mutual fund is to reduce risk through diversification and to provide the ordinary investor with expert selection and professional monitoring of investments backed by excellent customer service. A mutual fund is a collection of stocks, bonds and other securities purchased
by a group of investors, managed by a professional investment company. It pools all the resources of unitholders and invests on their behalf in diversified securities in the capital market for attaining the desired objectives.

In the recent period, the investment in mutual fund schemes has phenomenally increased, the growth witnessed being 25 to 30 percent. The retail investors are again evincing interest in mutual funds and equity related schemes. Retail investors are gradually beginning to understand the concept of mutual fund and its importance as an investment avenue. Still, they must understand the risk-reward relationship while investing in mutual funds. The investor has to bear in mind the fact that the risk-reward relationship differs between schemes.

The market success of any new product, particularly a financial product depends largely on its acceptance by consumers, in this case, the investors. Mutual funds must undertake a well designed and comprehensive programme of investor education, especially aimed at investors in rural and semi-urban areas. However, this has been mostly neglected in India. SEBI has been playing a significant role in the regulation of the mutual fund industry. It has taken several steps to increase investors confidence and steer the industry on a structured development path. But considering the prevailing investor psychology and indifferent health of the mutual fund industry a more supportive role is called for.

During the past three and a half decades, the mutual fund industry has grown several folds in terms of size, operations and investor
base. Therefore it is vital for both the fund managers as well as investors to know as to how the mutual funds have performed over the years. The studies on the performance evaluation of mutual funds have progressed significantly from 1960's in financial research arena. While most of the empirical studies have been conducted in the USA, it remains however, a largely ignored area in India inspite of its greater implications on the savings and investment transactions of Indian investors.

Some of the research works carried out in India focussed on mainly the performance evaluation of certain specific schemes of mutual funds. No comparative study on the performance of public sector and private sector mutual funds has so far been conducted. And also so far no empirical study has been conducted on the investors perception on mutual funds in the present research work this gap has been filled up.

The main objectives of the study are:

1. To study the evolution of mutual fund industry in India.
2. To examine the legal framework in relation to mutual funds.
3. To analyse the scheme-wise performance of the select institutions.
4. To compare the operating performance of public sector mutual funds and private sector mutual funds.
5. To find out the factors influencing investors decision in investment in mutual funds.
6. To identify the problems of investors in mutual funds.
7. To offer suggestions for the improvement of the performance of mutual funds in India.

The hypotheses framed for this study are:

1. The mutual fund schemes are not reasonably diversified.
2. Mutual funds do not offer superior risk-adjusted returns.
3. There is no significant difference between the return on investment of the public sector mutual funds and private sector mutual funds.
4. There is no significant difference between the size of unit capital of the public sector mutual funds and private sector mutual funds.
5. There is no significant difference between the size of investible funds of the public sector mutual funds and private sector mutual funds.
6. There exists no association between the age of the respondents and the most preferred investment avenue.
7. There exists no association between the education of the respondents and the most preferred investment avenue.
8. There exists no association between the occupation of the respondents and the most preferred investment avenue.
9. There exists no association between the annual income of the respondents and the most preferred investment avenue.
10. There exists no association between the age of the respondents and the type of the respondents.
11. There exists no association between the education of the respondents and the type of the respondents.

12. There exists no association between the occupation of the respondents and the type of the respondents.

13. There exists no association between the annual income of the respondents and the type of the respondents.

The study is a blend of both primary and secondary data. To obtain primary data, a survey was undertaken in the study area. Four metropolitan cities of Tamil Nadu namely, Chennai, Coimbatore, Madurai and Tiruchirappalli were chosen as the study area. As the population of the study consists of innumerable investors, the sample of investors selected for the study was restricted to 300, comprising of 75 respondents from each of the four cities. Judgement sampling method was adopted in the selection of investors. The secondary data relating to operating expenses, gross income, net income, unit capital and investible funds were collected from the annual reports of respective mutual funds. Data relating to BSE Sensex were collected from the BSE Sensex Index Number Book, data relating to 91-day Treasury bills were collected from the Handbook of Statistics on Indian Economy, 2000 published by the RBI and data relating to NAV, dividends etc., were collected from the web sites of the respective mutual funds.

To compare the operating performance of the public sector and private sector mutual funds the researcher had chosen five public sector mutual funds including UTI and five private sector mutual funds
as sample mutual funds. To analyse the scheme-wise performance of the mutual funds the researcher has selected 40 schemes from both the public sector and private sector mutual funds. Out of 40 schemes, 20 schemes belonged to the public sector and 20 schemes belonged to the private sector.

The growth of mutual funds have been analysed in terms of unit capital, investible funds and net assets. For this purpose compounded annual growth rates (CAGR) were computed.

Risk-adjusted performance evaluation is made with the help of Sharpe ratio, Treynor ratio, Jensen Measure and Sharpe differential return measure. Sharpe ratio evaluates the performance of the scheme against the bench-mark in terms of total risk. Treynor ratio evaluates the performance of the scheme in terms of systematic risk. The performance attribution is made by the application of Jensen measure which evaluates the ability of the fund managers in identifying the under valued securities. Sharpe's differential return measure provides the ability of the fund managers, both in security selection and diversifying the portfolio. Treynor and Mazuy model evaluates the market timing abilities of the fund managers.

The operating performance of mutual funds were evaluated with the help of four ratios - ratio of operating expenditure to investible funds, ratio of operating expenditure to gross income, ratio of surplus to gross income and return on investment. To find out whether there is a significant difference between the public sector mutual funds and private
sector mutual funds in terms of return on investment, unit capital and investible funds, 't' test was applied. Chi-square test was applied to test the association between the socio-economic factors and the most preferred investment and the type of the respondents.

7.2. FINDINGS OF THE STUDY

The major findings of the present study recorded in various chapters of the present report are consolidated and presented in this section.

7.2.1. GROWTH OF MUTUAL FUNDS IN INDIA

The second chapter entitled "Growth of Mutual Funds in India" dealt with the historical developments and its evolution, its growth in terms of net assets, unit capital and investible funds.

Starting with an asset base of Rs.24.67 crore in 1964 the industry has grown at a compound annual growth rate of 29 per cent to its current size of Rs.1,03,452.98 crore as on March 31, 2000. By the end of March 2000, total investible funds amounted to Rs.1,03,452.98 crore shows the overall growth of 46.49 per cent. UTI continues to be the market leader with the share of 66 per cent at the end of March 2000 though its dominance has decreased from 79 percent during 1998-99. The share of public sector mutual funds on the total investible funds decreased gradually from 15 percent during the year 1994-1995 to 9 per cent during the year 1999-2000. On the contrary the share of private sector mutual funds started to increase from 6 percent during 1997-98 to 25 per cent at the end of March 2000.
The total outstanding unit capital of the mutual fund industry has recorded 348 percent growth since 1990-91. By the end of 1999-2000, the private sector mutual funds overtook the public sector mutual funds other than UTI with an outstanding unit capital of Rs.17,143.94 crore compared to Rs.5908.24 crore of the latter. The share of unit capital of the public sector mutual funds in total unit capital decreased from 16.2 percent during 1995-96 to 7 percent during 1999-2000. The share of private sector mutual funds increased gradually from 4.1 per cent to 22 per cent during the same period. During the year 1999-2000, UTI's share in the total unit capital came down to 71 percent even though it was still dominant in the mutual fund industry.

The Corpus of UTI increased from Rs.43,945.84 crore in 1995-1996 to Rs. 56,789.73 crore in the year 1999-2000 indicating 5.26 per cent compound annual growth rate. The Bank sponsored and Financial institution sponsored mutual funds recorded a negative compounded annual growth rate. The private sector mutual funds having joint venture with foreign companies showed 61.58 per cent compounded annual growth rate. Predominantly Indian Private sector mutual funds indicated the CAGR of 44.21 per cent where as the Indian Private Sector Mutual funds indicate the CAGR of 28.91 per cent. On the whole, the corpus of the mutual fund industry indicated 7.74 per cent CAGR during the year 1995-1996 to 1999-2000.
With regard to resource mobilization the Unit Trust of India and Bank sponsored mutual funds recorded a negative compounded annual growth rate of -9.7 per cent and -199.3 per cent respectively. The Financial institution sponsored mutual funds showed 7.42 per cent CAGR and private sector mutual funds recorded 40.92 per cent CAGR. On the whole the growth of resource mobilization of the mutual fund industry recorded 10.05 per cent CAGR.

The net assets of all the mutual funds increased from Rs.74,315.31 crore in the year 1996 to Rs.90,587 crore in the year 2001 indicating a CAGR of 3.35 per cent. The net assets of UTI has decreased from 82.79 per cent during 1996 to 64.04 per cent during 2001 indicating a negative CAGR of -0.97 percent. The net assets of private sector mutual funds has increased from 2.80 percent in the year 1996 to 28.40 per cent in the year 2001, indicating a CAGR of 52.11 per cent. The share of public sector mutual funds (including UTI) in net assets declined from 90.40 per cent in 1998-99 to 75.37 per cent in 1999-2000 and further declined to 71.60 per cent during 2000-2001.

The third chapter entitled, "Regulatory frame work of mutual funds in India", dealt with the organisational structure and management of mutual funds and the role of various constituents of a mutual fund.
7.2.2. PERFORMANCE OF EVALUATION OF MUTUAL FUND SCHEMES

The fourth chapter entitled, "Evaluation of the performance of mutual fund schemes" dealt with the risk and return of mutual fund schemes, risk - adjusted performance of mutual fund schemes selected for the study and market timing ability of fund managers.

The study has revealed that the average return of the selected schemes was 0.0269 per cent per month. More than one-fourth of the schemes had returns in between 0.02 per cent to 0.04 per cent per month. Twenty schemes had returns less than 0.02 per cent and six schemes had returns more than 0.06 per cent per month. On the whole, sixteen schemes had an above average return than the average return of 0.0269 per cent per month. The average risk of the selected schemes was 0.837 per cent per month. In the case of income schemes all the schemes had less returns and less risk than the average return and average risk respectively. Returns of fourteen schemes were in conformity with the linear relationship of above average return with above average risk.

The study has disclosed that the average beta was 0.5674. Ten schemes had an aggressive beta value of more than 0.9 and fifteen schemes had beta value of 0.6 to 0.9. Out of the four schemes which earned returns in the range of 0.08 and above, three of them had a high beta value of more than one.
The study revealed that the return and risk are in conformity with the investment objective, in the case of income and balanced schemes but not in the case of growth and tax saving schemes. The growth schemes had earned on an average, a return of 3.31 per cent per month but had taken an average risk of 12.33 per cent whereas the income schemes showed an average return of 0.82 per cent per month with an average risk of 2.12 per cent. It reflects that the performance of income schemes was much better than that of the growth schemes. The balanced schemes earned an average return of 2.17 per cent per month with a risk of 6.96 per cent and the tax-saving schemes earned an average return of 4.48 per cent per month with a risk of 12.10 per cent. On the whole, the risk and return of the mutual fund schemes were not always in conformity with their stated investment objectives.

The analysis revealed that betas for different types of schemes ranged from a minimum of -0.0319 for Alliance Income Fund to a maximum of 1.4064 for Alliance Equity Fund; the average beta value for the sample schemes being 0.5674. The growth schemes had the highest average value of beta of 0.8828. On the whole, mutual funds were holding less risky portfolios than the market in general.

The study showed that the average unique risk of the sample scheme was 0.0745 (7.45%) per month while the average diversification was 0.3501. Of the 40 schemes, 25 schemes showed less than the average unique risk. 15 schemes had lower unique risk than the average but had a higher degree of diversification as it was higher than the average. Nine
schemes had higher unique risk than the average unique risk, but had a lower degree of diversification. The extent of diversification of all the schemes was below 0.90. It implies that the sample schemes were not reasonably diversified and thus the null hypothesis that mutual fund schemes are not reasonably diversified is proved.

The study has thrown light on the returns and risk of mutual fund schemes together with returns and risk of bench-mark portfolio and risk-free return. Out of the 40 schemes selected for the study, 38 schemes had not earned even more than risk-free return. However, 28 schemes out of the 38 schemes had higher returns than the market return. Only two schemes i.e., Alliance Equity Fund and Tata Tax Saving Fund earned a higher return than the risk-free return and return on the bench-mark portfolio. Out of the 40 schemes, 14 schemes had earned a higher return than the average portfolio return of 0.0291 of the sample schemes and another 14 schemes had earned a higher return than the average market return of 0.0137 of the sample schemes.

On the basis of return and risk characteristics sample schemes have been classified as high return and high risk, high return and low risk, low return and low risk and low return and high risk categories. The analysis revealed that out of the total 40 schemes, 21 schemes fell in the first category, 7 schemes fell in the second category, 10 schemes fell in the third category and remaining 2 schemes fell in the fourth category.
The study unveils the evaluation of the risk-adjusted performance of sample mutual fund schemes by using the measures of Sharpe ratio, Treynor ratio, Jenson differential return measure, Sharpe differential return measure and Fama's components of investment performance.

The study has disclosed that out of 40 schemes selected for the study, 23 schemes (57.5 per cent) had better Sharpe ratios in comparison to the relevant bench-mark portfolios. The top five performers were Alliance Equity Fund, Tata Tax-Savings Fund, Kothari Pioneer Blue Chip Fund, Birla Tax Plan'98 and Alliance Capital Tax Relief '96.

The study revealed that out of 40 schemes, 29 schemes had outperformed the bench-mark in terms of volatility. The top five performers were Birla Cash Plus, Tata Income Fund, Alliance Income Fund, Alliance Equity fund and Tata Tax-Saving Fund. Interestingly, among the 29 schemes, 23 schemes outperformed in respect of Sharpe ratios too. The schemes of Alliance Income Fund, Birla Cash Plus, Can Ganga, JM Balanced Fund, Tata Balanced fund and UTI Unit Scheme 95 which had not offered returns more than bench-marks in terms of total risk, but in terms of systematic risk they had outperformed their bench-marks. Thus, 23 schemes outperformed both in terms of total risk and systematic risk.

The study has brought to light that out of 40 schemes, alpha values for 19 schemes were positive thereby indicating superior performance. In other words, these schemes had generated returns in
excess of equilibrium return. The results indicate that alpha values for only six schemes viz., Alliance Capital Tax Relief '96, Alliance Equity Fund, Birla Advantage Fund, Kothari Pioneer Blue Chip Fund, SBI Magnum Multiplier and Tata Tax-Savings Fund were found to be statistically significant at 5 per cent level, thereby implying that these six schemes have generated above normal returns. Thus the superior performance is noticeable only in respect of the six schemes. It thus proves the null hypothesis that mutual funds do not offer superior risk adjusted returns.

The study has thrown light that out of the 40 schemes, 23 schemes (57.5 per cent) reflected positive differential returns, thereby indicating superior performance. The top five performers included Tata Tax-Savings Fund, SBI Magnum Equity Fund, Kothari Pioneer Blue Chip Fund, Can Global and Birla Tax Plan '98. The remaining 17 schemes showed negative differential returns indicating that they could not generate returns commensurate with the risk they assumed.

Out of the 40 schemes, 16 schemes had higher differential returns than the average differential returns.

The overall investment performance has been broken down into various components such as risk-free return, risk compensation, diversification and net selectivity.

The results of the study revealed that except for three schemes viz., Alliance Income Fund, Birla Cash Plus, and Tata Income Fund, other
schemes had suffered negative performance on account of risk bearing activity of fund managers. UTI's UGS 5000 had the highest negative performance with -9.73 per cent per month followed Tata Tax Savings Fund with -9.29 per cent per month.

The diversification measures additional return that compensates the portfolio manager for bearing diversifiable risk. The study discloses that all the 40 schemes have lost a significant part of their returns in pursuit of their diversification activities, as the diversification measure was negative.

A positive net selectivity will indicate superior performance. The results of the study revealed that fund managers of 23 schemes (57.5 per cent) appeared to possess superior stock selection ability as the selectivity measure was found to be positive. The five top performers with regard to selectivity were Tata Tax Saving Fund, SBI Magnum Equity Fund, Kothari Pioneer Blue Chip Fund, Can Global and Birla Tax Plan '98.

The study has disclosed that 38 schemes (out of 40 schemes) had less returns than the risk-free return. Out of the 38 schemes, 23 schemes had less returns than the average return of the 38 schemes.

The study also analysed the market timing abilities of fund managers by using Treynor and Mazuy model. The results of the study revealed that the mutual fund managers did not exhibit any superior market timing abilities. Out of the 40 sample schemes only two schemes
viz., UTI's Unit Scheme 95 and IDBI Principal Tax - Savings Fund had significantly positive ($\gamma$) gamma (measure of timing) at 5 per cent level.

7.2.3. OPERATING PERFORMANCE OF MUTUAL FUNDS

The fifth chapter captioned, "Evaluation of the operating performance of mutual funds" dealt with the operating performance of the mutual funds by applying different expenses ratios.

On the whole the ratio of operating expenditure to investible funds increased from 0.89 per cent in 1995-96 to 1.08 per cent in 1997-98, but afterwards it declined to 0.92 per cent in 1998-99 and increased to 1.02 per cent in 1999-2000. During the study period of 1995-96 to 1999-2000, the ratio of operating expenditure of UTI was less than one per cent which indicates a high efficiency. Unit Trust of India and LIC mutual fund have been managing the funds more efficiently than the other mutual funds.

Except Kothari Pioneer Mutual Fund all other private sector mutual funds are having a higher ratio of operating expenditure to gross income during the study period. During 1996-97 to 1999-2000 the ratio of operating expenditure to gross income of private sector mutual funds showed a declining trend which indicate increase of efficiency. The ratio of operating expenditure of UTI was less than 7 per cent during the study period, when compared with the industry aggregate its ratio was lower. During the year 1999-2000 both the UTI and SBI Mutual Fund were showing a low ratio than the industry aggregate.
During the period of 1997-98 to 1999-2000 the ratio of surplus to gross income of the sample mutual funds were more than 85 per cent. In 1996-97 the ratio of surplus to gross income has been reduced from 83.37 per cent in 1995-96 to 78.37 per cent in spite of an increase in the gross income. During the year 1996-97 SBI Mutual Fund, Can Bank Mutual Fund and IDBI Mutual Fund recorded a negative ratio. During the same year the private sector mutual funds of Tata Mutual Fund and Kothari Pioneer Mutual fund also recorded a negative ratio. The ratio of surplus to gross income of Alliance Capital Mutual Fund, Birla Mutual Fund, Tata Mutual Fund and JM Mutual Fund were in increasing trend during the period 1997-98 to 1999-2000. Except UTI other sample mutual funds recorded a low ratio than the industry aggregate during the study period.

The efficiency of mutual funds have been studied in terms of return on investments. SBI Mutual Fund, Can Bank Mutual Fund and IDBI Mutual Fund of public sector mutual funds and Tata Mutual Fund and Kothari Pioneer Mutual Fund of private sector mutual funds recorded a negative return on investments during the year 1996-97. Except UTI, other sample mutual funds showed a very low return on investment during the years 1995-96 and 1996-97. The return on investments of public sector mutual funds was gradually increasing, exhibiting clearly their increased efficiency during the years 1998-99 and 1999-2000. The UTI achieved a higher return on investment than the industry aggregate during the study period.
The study unveils the comparison of public sector and private sector mutual funds in respect of the ratio of operating expenditure to investible funds. The operating expenditure of public sector mutual funds was more or less than one per cent during the study period. On the other hand the percentage of operating expenditure of private sector mutual funds gradually decreased from 5 per cent in the year 1995-96 to 1.52 percent in the year 1999-2000. In the case of UTI, it maintained the percentage of operating expenditure by less than one per cent during the study period.

During the study period the ratio of operating expenditure to gross income of the private sector mutual funds decreased from 29.66 per cent to 8.79 per cent. In the case of UTI the ratio of operating expenditure increased from 5.46 per cent in the year 1995-96 to 6.89 per cent during the year 1998-99 and during the year 1999-2000 it reduced to 4.48 per cent. On the whole the percentage of operating expenditure to gross income was more in the private sector mutual funds than the public sector mutual funds during the study period.

The ratio of surplus to gross income was more than 80 per cent in the case of public sector mutual funds (including UTI) whereas in the case of private sector mutual funds the ratio was less than 70 per cent during the latter period of the study. During the years 1995-96 and 1996-97 the private sector mutual funds recorded a negative performance. In the case of UTI, it maintained more than 90 per cent of gross income as surplus during the study period.
The study discloses the return on investments (ROI) of the public sector and private sector mutual funds. On the whole the ROI of public sector mutual funds were higher than the private sector mutual funds during the study period except during the year 1998-99. The public sector mutual funds maintained the ROI from 10 per cent to 13 per cent during the period of 1995-96 to 1998-99. In the case of private sector mutual funds during the first two years of the study period their ROI were negative and from 1997-98 onwards their ROI increased from 8.47 per cent to 12.25 per cent in the year 1999-2000.

To ascertain whether there is a significant difference between the return on investment of the public sector and private sector mutual funds 't' test has been applied. The results show that there is no significant difference between the return on investment of the public sector and private sector mutual funds.

The study has revealed the comparative growth of unit capital and investible funds of public sector and private sector mutual funds through the technique of compounded annual growth rate (CAGR). In terms of unit capital the CAGR of private sector mutual funds was ten times more than the public sector mutual funds (including UTI). However, the UTI had a steady growth rate during the study period. In terms of investible funds the CAGR of private sector mutual funds showed a tremendous growth rate of 71.32 per cent which was thirteen times more than the growth rate of public sector mutual funds (including UTI). On the whole in terms of unit capital and investible funds the private sector mutual funds performed well than the public sector mutual funds.
To find out whether there is a significant difference between the unit capital and investible funds of the public sector and private sector mutual funds, 't' test has been applied. The results reveal that there is significant difference between the unit capital and investible funds of the public sector and private sector mutual funds.

7.2.4. FACTORS INFLUENCING MUTUAL FUND INVESTMENT DECISION MAKING

The sixth chapter titled, "Factors influencing mutual fund investment decision making", dealt with the investment profile of the investors, awareness of mutual funds, factors influencing investment decision making, problems of mutual fund investors and the like.

The study unveils the investment preferences of the mutual fund investors in respect of their savings. Investment in bank deposits/post office savings is ranked first as a vehicle for the placement of their savings with the mean score of 2708.75 under Garret's Ranking method. Investment in mutual funds, investment in real estate, investment in gold and investment in shares come in the second, third, fourth and fifth places with the mean scores of 2258.13, 1870.63, 1828.75 and 1805.63 respectively.

To ascertain whether there exists an association between the most preferred investment and the socio economic factors of the respondents, chi-square test has been applied. The result shows that there exists association between the most preferred investment and the age of the respondents and the education of the respondents. The result also
shows that there exists no association between the most preferred investment and the occupation and annual income of the respondents.

95 per cent of the respondents invest in mutual funds through the savings from earnings. Nearly 42 per cent of the respondents allocate 11 to 24 per cent of their annual income for the purpose of investment in mutual funds. Nearly one-fourth of the respondents allocate more than 24 percent of their annual income for investments in mutual funds. Half of the surveyed respondents want to keep their investments in the time frame of 1-3 years which an ordinary investor normally do. One-sixth of the respondents keep their investments in mutual funds in the time frame of less than one year who are giving much importance to the liquidity aspect of the investments. The survey also reveals that more than half of the respondents are preferring to subscribe initial public offerings.

The survey has brought to light the respondents' sources of information about investment in mutual funds. 38 per cent of the respondents obtained information through newspapers, 32 per cent of the respondents obtained information through investment consultants, 30 per cent of the respondents made investments in mutual funds through mutual fund agents. Only 8.33 per cent, 5 per cent, 10 per cent, 13.33 per cent and 15 per cent of the respondents held the view that the T.V., seminars, stock brokers, friends and relatives and personal initiative respectively were helpful in providing investment information.
52 per cent of the respondents are very much aware about the computation of NAV. One-third of the respondents are aware about the entry load/exit load and time for payment of dividend after declaration. Nearly one-fourth of the respondents are aware about the AMFI, AMC time for issue of unit certificate, time for payment of redemption proceeds and Board of Trustees.

47 per cent of the respondents are aware about the tax exemptions when the investments are made in tax saving schemes. 45 per cent of the respondents are aware about the switch over scheme facility and 40 per cent of the respondents are aware about the systematic investment plan. Only 38.33 per cent, 30 per cent and 20 per cent of the respondents are aware about the systematic withdrawal plan, automatic withdrawal plan and trigger facility respectively.

The study has revealed that 50 percent of the respondents belong to the type of occasional investor. Staying investor class consist of 28.33 percent of the respondents and active investor class consist of 15 percent. Less than 10 percent of the respondents belong to active speculator class.

To find out the association between the type of the respondents and the socio-economic factors such as age, education, occupation and annual income of the respondents, chi-square test has been applied. The result shows that there exists association between the type of the respondents and the socio-economic factors of the respondents.
The survey throws light on the factors influencing mutual fund investment decision-making. Tax exemption for investments in mutual funds has been accorded the highest importance with a mean score of 2.50 on a three point scale. This is followed by the professional management of the mutual funds which has influenced the investors to invest in mutual funds. High return ranks third as an influencing factor followed by liquidity and flexibility which occupies the fourth and fifth position respectively. Well regulated, diversification of risk, choice of schemes, transparency and convenient administration are the other factors occupying the sixth, seventh, eighth, ninth and tenth positions respectively in influencing the investment decision making.

The study has disclosed the investment preferences of the mutual fund sponsors. Private sector mutual funds is ranked first with the mean score of 2.17 on a three point scale. Unit Trust of India and Public sector mutual funds come in the second and third places with the mean scores of 1.77 and 1.75 respectively. Open-ended schemes occupies first place in analyzing the investment preference of the respondents and close-ended schemes occupies second place with the mean score of 1.38. Based on the objectives of the schemes the income schemes occupies the first position with the mean score of 2.52 on a three point scale. Growth schemes occupies the second position, tax-saving schemes occupies the third position and balanced schemes occupies the fourth position.

The survey throws light on the factors influencing selection of mutual funds by adopting Garrets ranking method. The track record
of the mutual fund has been accorded as the highest influencing factor with a mean score of 2133.3 on a three point scale. High return and degree of transparency which occupies the second and third position securing the mean score of 1988.9 and 1675.6 respectively. Efficient service and reputation of the mutual fund are the other influencing factors occupying the fourth and fifth position respectively.

Nearly half of the respondents expect 10 to 15 per cent return on the growth, income and balanced schemes. One-third of the respondents expect 15 to 20 per cent on income and balanced schemes. In the tax-saving schemes 41.67 per cent of the respondents are expecting return between 15 to 20 per cent. Nearly 20 per cent of the respondents are expecting more than 20 per cent as return in the growth and tax-saving schemes.

The survey has brought to light the operational problems of the respondents, respondents' opinion about the growth of mutual funds, and respondents views on the level of fulfillment of objectives. More than one-third of the respondents have stated that they never faced any kind of difficulty with the mutual funds and one-fourth of the respondents have stated that they faced the difficulties rarely. 15 per cent of the respondents have stated that they often faced the difficulties and 44 per cent of the respondents have not come across the difficulty of dividend payment in time and transfer of units.

48 per cent of the respondents are of the opinion that the mutual fund industry will grow moderately. More than one-fifth of the
respondents opined that the mutual fund industry will grow very fast. 12 per cent and 10 per cent of the respondents are of the view that mutual funds will grow slowly and very slowly respectively. 8 per cent of the respondents have expressed no opinion.

Regarding the fulfillment of objectives more than half of the respondents have expressed that their objective in investing in mutual funds were reasonably fulfilled. 20 per cent of the respondents have expressed that they were disappointed and 12 per cent of the respondents have stated that they were very much disappointed. Only 6 per cent of the respondents expressed that returns in mutual funds surpassed their expectations.

The study has brought to limelight that the assured return schemes, investor education through seminars, conferences etc, rating of mutual fund schemes, granting more powers to SEBI, establishing investor's protection fund are considered by the respondents to be highly useful measures for the development of mutual funds. Their mean scores being higher at 2.56, 2.52, 2.46, 2.44 and 2.42 on a three point scale respectively.

Measures such as switch over facilities, enhancement of accounting and disclosure standards, appointment of Ombudsman for supervising mutual funds, mutual funds allowed to operate in derivatives and self regulatory organization measures will also fairly contribute towards the development of mutual funds, as these measures have obtained mean scores of 2.22, 2.16, 2.14, 2.12 and 2.10 in that order.
However, market research, pass book system for open-ended schemes, internet trading and mutual fund units selling through post offices have been considered by the respondents as less useful measures in the development of mutual funds. The overall average score for all these measures comes to 2.20 which indicates that the respondents on the whole have favourable opinion on the usefulness of these measures for the development of mutual fund industry in India.

The study has thrown light on the factors discouraging investments in mutual funds. Fear of fraud is the most discouraging factor which occupies the first position with the mean score of 4.26 on a five point scale. Next on the ladder comes an equally damaging discouraging factor namely lack of investor education with a mean score of 4.08. Lack of professionalism in management of funds, portfolio manipulation, reckless management of funds, non-compliance of the objectives of the schemes and poor grievance handling mechanism are the other discouraging factors with mean score values exceeding 3.50 points indicating the very high discouraging effects caused by them. The remaining factors are somewhat less severe, but still with a high level of discouraging effect, their mean score ranging between 2.96 to 3.5.
7.3. SUGGESTIONS

The suggestions that emanate from the findings of the survey and the responses elicited from the study participants through elaborate discussions are presented hereunder.

1. From the analysis made with regard to the growth of mutual funds industry, it is observed that the investible funds, unit capital and net assets of the public sector mutual funds (including UTI) had been consistently declining over the study period due to the entry of private sector mutual funds. UTI due to its experiences and greater skill in manoeuvrability and the huge corpus at its disposal could manage the strong presence of private sector mutual funds. But other public sector mutual funds just could not proceed against the tides. In this connection the study suggests that these public sector mutual funds, must evolve better strategies like diversification of risks, improving market timing abilities etc to face the competition with the private sector mutual funds. They should strengthen their market research and security analysis mechanism.

2. The study observes that majority of the respondents are not aware of the various aspects of mutual funds, schemes offered and facilities provided by the mutual funds. Investor education is the need of the hour. SEBI, AMFI and Mutual funds should organise well defined and comprehensive investor education / awareness programmes by arranging seminars, conferences and training programmes, publicity through media like newspaper, magazine, T.V., radio and publishing
and distributing books, pamphlets and brochures nation wide particularly among rural investors.

3. Investors are disquieted at the alarming regularity with which some of the mutual funds are bending the rules and regulations. Misdemeanours by mutual funds include running certain mutual fund schemes with a single investor, dividend stripping, dividend declaration in a growth scheme, late trading, transferring PF money into equities. Such practices question the efficacy of regulations as well as the integrity of fund management. The SEBI and AMFI should plug the loop holes if any and tighten regulations. A specialist fraud prevention unit may be developed in order to detect financial crimes more effectively and formalising inter-agency co-operations on this front. Introduction of professional corporate trustees may be contemplated. If possible a separate Act may be enacted.

4. The study reveals that expense ratios of the mutual funds in India except UTI is very high. Though asset management companies are beginning to enjoy economies of scale as fund sizes keep rising. There has been no reduction in costs charged to schemes. They pay-off to the AMCs. It does not depend on the actions taken on behalf of the investors. It is suggested to link the portfolio management fees to the investors' pay-offs. Thus a sizable portion of the management fees should be linked to funds long-term performance. The compensation structure can be based on the geometric average of the monthly excess returns over the bench mark in the last three years.
5. It is suggested that the investors should consider not only the track record of the mutual funds but also other factors such as high return, degree of transparency, efficient service, and reputation of mutual fund in the selection of a mutual fund.

6. The study observes that except UTI, other sample mutual funds show a very low return on investments during the initial period of the study. Most of the sample mutual funds have recorded a negative return on investment. Hence it is suggested that mutual funds should evolve new strategies to increase the return on investment.

7. It is observed that while comparing the public sector mutual funds with the private sector mutual funds in terms of unit capital and investible funds the private sector mutual funds have performed well than the public sector mutual funds. Therefore, it is suggested that public sector mutual funds should initiate steps to increase the unit capital and investible funds.

8. From the analysis it is observed that the return and risk of the mutual fund schemes are not always in conformity with their stated investment objectives. It is suggested that the mutual fund schemes should always be in conformity with their stated investment objectives. This will give a good impression in the minds of the investors.

9. The study reveals that all the sample schemes are not reasonably diversified. Hence it is suggested that the mutual funds should invest their investments in diversified industries.
10. It is observed that most of the sample schemes have not earned even more than the risk-free return. Therefore it is suggested that mutual funds should provide minimum guarantee return or assured return at least at the prevailing bank rate of interest to the investors to attract large number of retail investors.

11. The study observes that most of the schemes exhibit poor timing and selectivity abilities of fund managers. This trend if continues naturally makes the mutual funds obsolete from being a superior financial product. Therefore there is a dire need to improve this aspect of performance of fund managers.

12. It is suggested to introduce mutual fund ratings that are designed to provide investors, intermediaries and fund sponsors/AMCs with an independent opinion on the performance and risks associated with various mutual fund schemes. It will help the decision making process of retail investors besides the more organised institutional ones. Independent ratings also serve to bring to the forefront well managed and governed fund houses, thus promoting excellence in the industry.

13. There is an acute short supply of good fund managers and other trained and experienced professionals. With the phenomenal growth in the financial services sector, it has become highly impossible to get seasonal professionals. Even if one gets them they are expensive and difficult to retain. AMFI may contemplate starting an institute which may offer courses to suit the requirements of mutual fund
industry at various levels. Training centres may be established at various parts of the country for agents who distribute mutual fund products.

14. The recently introduced Futures and Options Schemes in commodity market are gaining momentum in India. They are expected to surpass the stock market many times over. It is suggested to introduce Gold Fund and other commodity funds. Mutual funds should be allowed to come out with innovative products at the same time care should be taken to make things simpler by designing simpler products and by using intelligible tools for communication and by being totally transparent to avoid any confusion for the investor.

15. Investment and redemption of units through ATM will facilitate hassle-free transactions for investors. In fact this has already started in a small way and needs to be encouraged further. Cheque-writing facility for liquid funds may be provided.

16. Mutual funds have been allowed recently to invest in equities of select companies registered overseas. The mutual fund industry should develop the net work expertise and research of overseas stock market and avail this opportunity as a measure of risk diversification and enhanced returns.

17. Corporate investors still account for around 57 per cent of the assets under management, another 20 percent is held by high networth individuals. To enhance retail investor participation in mutual funds special incentives and tax concessions may be given to those mutual
funds which offer their units exclusively to individuals with limits prescribed.

18. In terms of product innovation and diversification, still Indian mutual fund industry lags behind compared to the USA. As the mortality rate is increasing it is the need of the hour to popularize the pension funds which have the greater potential in the years to come.

19. Penal provision should be enhanced considerably as a deterrent for the defaulters. A separate Ombudsman scheme should be initiated for redressing the grievances of mutual fund investors effectively. Each mutual fund should be required to establish investor grievance cell of its own.

20. 'Up dates' information about the fund and schemes should be despatched to the investors at least once in a month.

21. Insider trading should be removed in the functioning of mutual funds.

7.4. CONCLUSION

Indian economy is undergoing a transformation with the introduction of liberalized economic policy in 1991. The recent reforms and globalisation process have offered tremendous opportunities to Indian mutual funds. Most of the controls on financial and corporate sectors have been lifted and there is a trend towards free economy. The capital market has also received a boost due to the liberalized economic policy. Psychology of the investing public has undergone a change and more
savers are now attracted towards the capital market. In a global capital market environment, Indian mutual fund industry can emerge as one of the strongest players by absorbing investment technology and modified managerial practices in the regional context, while thinking and acting with a global vision.

Going by developments that have taken place during the last four years, things are just beginning to warm up for the mutual fund sector. As in other spheres of life only the fittest will survive, only those mutual funds which perform well will receive greater investor support and others may have to be content with smaller volumes of business or eventually think in terms of folding up their operations altogether. Life at present is quite exciting for fund houses, thanks to competition from rivals, the M & As that keep on happening and lots of regulatory issues. They need to overcome all this and provide investors with what is most needed good products and services and above all, superior performance.

7.5. SCOPE FOR FURTHER RESEARCH

There is adequate scope for further research in the following areas.

1. The SEBI's role in regulating mutual fund industry, in the context of investor protection.
2. A comprehensive study on the Off-shore mutual funds.
3. A study on the valuation and pricing of mutual fund units.
4. A study on the investment policy of mutual funds.