CHAPTER 5
SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

Introduction

"Findings are the statements of factual information based analysis" John W. Best. The discussion of finding will normally be the longest section of the report. The presentation of findings is accomplished by a number of devices. The task is achieved through the use of analytical and statistical techniques. Results should be explained with sufficient details to enable the reader to understand the work. Secondary data are explored completely to ascertain the correlation between fund return and market return, to estimate the future fund return of midcap funds, to identify the consistency of the fund return and indices return. Now, the investor possesses greater awareness through newspaper, TV and other sources. The transparency in mutual fund market is considered as one of the vital reforms that magnetically attracted the investors and increased their number. The classification of markets paved the way for the investors to make their own lucrative and scientific choice and made them to employ various strategies to overcome the impediments in investment procedures.

A capsule of the findings of the study is furnished in the following pages.

Fund Return Analysis:

Return analysis is a very essential in any investment decisions. From the analysis, the researcher has derived the mean return of 12 midcap funds.

⇒ Birla Sunlife Midcap Fund = -3%
⇒ DBS Chola Midcap Fund = -3%
⇒ HDFC Midcap Fund = -11%
⇒ HSBC Midcap Fund = -6%
⇒ Ing Vysya Midcap Fund = -4%
⇒ JM Financial Midcap Fund = -6%
⇒ Kotak Mahindra Midcap Fund = -6%
⇒ Religare Midcap Fund = -6%
⇒ Sahara Midcap Fund = -3.4%
⇒ SBI Magnum Midcap Fund = -5%
⇒ Sundaram BNP Paribas Midcap Fund = -2%
⇒ Tata Midcap Fund = -6%

It is prudent that the decision cannot be made alone by considering the return from the respective fund. It purely depends on the risk appetite of the investor. If they are aggressive, can opt for high return, which comes with high risk. If they are conservative, can opt for lesser return, which attached with less risk. But the worst decision is opting a fund, which has lesser return and high risk hence investors should be careful while opting the funds.

**Risk Analysis:**

The risk associated with fund could be segregated into two, i.e. Systematic risk and Unsystematic risk. Addition of these two risk, it becomes total risk of the respective funds. Systematic risk is uncontrollable and Unsystematic risk is controllable. The Standard Deviation of Birla Sunlife Midcap Fund is 1.84, DBS Chola Midcap Fund is 2, HDFC Midcap Fund is 1.67, HSBC Midcap Fund is 1.73, Ing Vysya Midcap Fund
is 2.04, JM Financial Midcap Fund is 1.86, Kotak Mahindra Midcap Fund is 1.82, Religare Midcap Fund is 1.86, Sahara Midcap Fund is 1.77, SBI Magnum Midcap Fund is 2.03, Sundaram BNP Paribas Midcap Fund is 1.74, and Tata Midcap Fund is 1.78. Standard Deviation is an absolute measure. Hence no decision can be made. This relative measure co-efficient of variation facilitates the decision process. The co-efficient of variation of Birla Sunlife Midcap Fund is 26.61%, DBS Chola Midcap Fund is 25.70%, HDFC Midcap Fund is 23.99%, HSBC Midcap Fund is 27.60%, Ing Vysya Midcap Fund is 25.92%, JM Financial Midcap Fund is 18.40%, Kotak Mahindra Midcap Fund is 26.12%, Religare Midcap Fund is 30.94%, Sahara Midcap Fund is 24.7%, SBI Magnum Midcap Fund is 32.28, Sundaram BNP Paribas Midcap Fund is 23.5% and Tata Midcap Fund is 24.76%. Coefficient of Variation is a relative measure that links the standard deviation and the respective funds mean return.

**Relationship with the Market:**

Serial correlation co-efficient signifies that the previous historical value to what extent that drives the subsequent observations. In this context we presume that the historical NAV leads the future NAV of the fund. It is prudent from the data analysis, all the funds serial correlation co-efficient lies between (0.1<γ<0.25) and indeed exhibits there is low degree of positive correlation has been witnessed. This shows the historical NAV does not significantly drive the future NAV of the fund and hence, the NAV perhaps random if there are any variations in the NAV, the historical NAV does not explain to a major extent.

The R-Squared value for Birla Sunlife Midcap Fund is 0.4%, DBS Chola Midcap Fund is 4.1%, HDFC Midcap Fund is 6.9%, HSBC Midcap Fund is 0.7%, Ing Vysya
Midcap Fund is 0.36%, JM Financial Midcap Fund is 4.49%, Kotak Mahindra Midcap Fund is 0.9%, Religare Midcap Fund is 0.64%, Sahara Midcap Fund is 1.8%, SBI Magnum Midcap Fund is 0.72%, Sundaram BNP Paribas Midcap Fund is 0.3% and Tata Midcap Fund is 5%. It is vividly clear that 0.4% of variation can be explained by the market for the Birla Sunlife midcap fund and vice versa.

**Systematic Risk (Beta):**

Beta establishes the systematic relationship between the portfolios with the market. Here the fund is treated as dependant variable and market is treated as independent variable. The beta value for Birla Sunlife Midcap Fund is 0.061, DBS Chola Midcap Fund is 0.201 HDFC Midcap Fund is 0.195, HSBC Midcap Fund is 0.075, Ing Vysya Midcap Fund is 0.062, JM Financial Midcap Fund is 0.21, Kotak Mahindra Midcap Fund is 0.026, Religare Midcap Fund is 0.076, Sahara Midcap Fund is 0.117, SBI Magnum Midcap Fund is 0.085, Sundaram BNP Paribas Midcap Fund is 0.05 and Tata Midcap Fund is 0.064. According to Beta it is clear that if the market return increases by 1%, the portfolio return for Birla Sunlife Midcap Fund increases by 0.061 and vice versa.

**Future Performance of Portfolios (predicted) based on the study period:**

The researcher has derived the following regression equations for predicting future returns of the respective funds. For determining these equations the fund return has been kept as dependent variable and the index return has been kept as independent variable. These equations help the investors to estimate the fund return for a change in the index return.
⇒ Birla Sunlife Midcap Fund = -0.016+0.061x
⇒ DBS Chola Midcap Fund = -0.026+0.201x
⇒ HDFC Midcap Fund HSBC = -0.092+0.195x
⇒ HSBC Midcap Fund = -0.059+0.075x
⇒ Ing Vysya Midcap Fund = -0.047+0.062x
⇒ JM Financial Midcap Fund = -0.05+0.021x
⇒ Kotak Mahindra Midcap Fund = -0.062+0.026x
⇒ Religare Midcap Fund = -0.033+0.076x
⇒ Sahara Midcap Fund = -0.031+0.117x
⇒ SBI Magnum Midcap Fund = -0.005+0.085x
⇒ Sundaram BNP Paribas Midcap Fund = -0.02+0.05x
⇒ Tata Midcap Fund = -053.0+0.064x

It is evident from the equations that the coefficient of ‘x’ is the Beta value. The constant value is termed as Risk-free return (Alpha). When the market leverage is completely absent the fund will return at this rate. A positive alpha value is a healthy sign. All the midcap funds have got negative alpha value, which is not a good sign.
Testing of Hypothesis:

Runs Test:
A null hypothesis is framed as “The daily net assets values of DBS Chola Midcap fund are random”. It has been observed from the analysis, the researcher failed to accept the null hypothesis at 5% level of significance. Hence, we can conclude that the fund NAV is not random. This contradicts the efficient market hypothesis, thus the NAV moves in tandem with the market fluctuations.

Anova Test:
A null hypothesis is framed as “There is no significant difference between the mean fund return and mean market return”. It is prudent from the analysis; the researcher has accepted the null hypothesis for all the midcap funds. Hence we can conclude that there is no significant difference between the mean fund return and mean market return.

Correlation:
A null hypothesis is framed as “There is no significant correlation between fund return and market return”. It is inferred from the analysis; the researcher has accepted the null hypothesis for Birla Sunlife Midcap Fund, Ing Vysya Midcap Fund, Kotak Mahindra Midcap Fund, Kotak Mahindra Midcap Fund, Religare Midcap Fund and Sundaram BNP Paribas Midcap Fund. Hence there is no significant correlation between fund return and market return for the aforesaid midcap funds. On the other hand, the researcher has rejected the null hypothesis for DBS Chola Midcap Fund, HDFC Midcap Fund, HSBC Midcap Fund, JM Financial Midcap Fund, Sahara Midcap Fund and SBI Magnum Midcap Fund. Hence we can conclude that
there is a significant correlation between fund return and market return for the aforesaid midcap funds.

Treynor’s index measure the portfolio performance based on volatility. Hence this index is also known as reward to volatility ratio. It is evident from the data analysis that all the select midcap funds did not beat the market portfolio. Jensen performance index is a measure of absolute performance because a specific standard is set and against that the performance is measured. It is vividly clear from the data analysis that for the study period, the portfolios did not over perform the risk free assets.
SUGGESTIONS:

The suggestions are drawn by inference, either inductive or deductive, from the findings. The suggestion to accept or reject the hypothesis depends upon which the investigation is conducted. Drawing suggestions involves the human process of interpretation.

- The investment decisions should need to have clearly defined objectives. It means what exactly the investors expect from the investment. The objectives could be the return and risk profiling of the individual investors. Some investors may be aggressive and some investors may be conservative in this approach. According to their level of risk appetite, the decision should be made otherwise irrational expectations will only bring pain.

- Before investing in Midcap fund, it is always better to refer the offer document and other related literature in order to avoid the confusion in the future. One should always see that whether this particular scheme will be compatible with the nature of the investment. Substantial losses might occur by picking up an unmatched Midcap fund.

- Though all the select midcap funds yielded negative return, it does not prove that this trend perhaps continue to long term time horizon. Thus investing in midcap funds for long term horizon may yield higher return.
Analysis suggests that despite recession midcap funds did not exhibit much variation compared to other funds, which have similar investment objective. This proves that midcap funds would be a blend of value stocks as well as growth stocks, which certainly add value to investors’ money. Thus probably midcap funds would be a right choice for conservative investors.

There should be more transparency about the companies and their performance so that the investors can decide their investments in the appropriate scheme of Midcap fund.

The thought process is given to the time horizon by the investor concerned is very essential. Some investors would like to have the investment horizon for a longer period and some would like to speculate by switching over from one scheme to another which in turn increases the cost on investment and mean while the performance could be because of market movements. Hence one should plan for longer time horizon.

Corporate governance has to be implemented in all mutual funds exchange.

Keeping all investments in one particular scheme will enhance the level of risk. Thus one should plan for splitting the investment in other schemes that
reduces the impact of uncertainty. When we opt for various schemes for constructing an optimal portfolio, it is better not to have any specific exposure towards a particular scheme.

- Innovative technologies like dematerialization, online trading, creation and development of web pages must be brought in mutual fund markets for its growth and attracting the educated investors.

- Investor should consistently keep in touch with the market in order to have a better stand on their investments. Since, there is lot of difficulty in determining when to enter and exit, one should be systematic to win the rally. It will facilitate the investor to generate more returns than staying in the market for a longer duration. Nowadays all the mutual funds are offering systematic investment plans (SIP) to plan our investments periodically.

- Strategies like hedging, index futures have to emerge in the mutual fund market to reduce the market risk and provisions must be made to ensure the return, atleast of the principal amount of the investors.

- Investing in one particular scheme and tracking the fund’s performance are always goes hand in hand. It is universally accepted principle that when market is bearish, it is better to switch from equity funds to debt funds as the losses could be minimized and when the market is bullish, it better to switch from debt funds to equity funds as the returns could be maximized.
Transparency must be ensured both in public sector midcap funds and private sector midcap funds on an equal footing to help the investors to ensure that they make rational investment decisions and that their capital is not lost.

Midcap fund investments are not risk free and one should follow the regulations diligently. The investors should know when to exit from the market is important. One should book profits when enough has been earned and the non-performance, change in the fund objective are the other reasons for exit from the market.

Companies should provide information to investors at large with structured data.

Investing should be a habit and not an exercise undertaken at one’s wishes, if one has to really benefit from them. As we said earlier, since it is extremely difficult to know when to enter or exit the market, it is important to beat the market by being systematic. The basic philosophy of Rupee cost averaging would suggest that if one invests regularly through the ups and downs of the market, he would stand a better chance of generating more returns than the market for the entire duration. The SIPs (Systematic Investment Plans) offered by all funds helps in being systematic. All that one needs to do is to give post-dated cheques to the fund and thereafter one will not be harried later. The Automatic investment Plans offered by some funds goes a step further, as the amount can be directly/electronically transferred from the account of the investor.
It is important for all investors to research the avenues available to them irrespective of the investor category they belong to. This is important because an informed investor is in a better decision to make right decisions. Having identified the risks associated with the investment is important and so one should try to know all aspects associated with it. Asking the intermediaries is one of the ways to take care of the problem.

As far as the midcap fund is concerned, research carried out is very less. So, SEBI and other agencies should provide assistance to carry out advanced research in this area.

Conservative trend following, Market Timing or Dynamic Allocation is an investment strategy with the primary goal of investing in the markets when the upward trend is strong and to be out of the market, in the safety of a money market account, when the market trend is weak. In other words don’t fight with the trend. Liken it to the breaks on your car. It is not always prudent to go full throttle, especially when the light ahead of you is clearly red.

Fund Switching is a little fancier. It is an investment strategy where by the mutual fund investor monitors the different market areas or sectors in an attempt to be in the strongest funds of the market or sector at any given time. In theory, the Fund Switching investor would always be 100% invested at all times. While this risk exposure is the same as the buy-and-hold investor’s, the overall risk is considered less by allowing exposure to only the strongest
market areas and eliminating the weakest. Liken this to switching lanes in your car on the highway. Investor can look ahead to see where the traffic is flowing and "switch" to the most promising lane.

- Investors’ first has to decide what he wants the money for and it is this investment goal that should be the guiding light for all investments done. It is thus important to know the risks associated with the fund and align it with the quantum of risk one is willing to take. One should take a look at the portfolio of the funds for the purpose. Excessive exposure to any specific sector should be avoided, as it will only add to the risk of the entire portfolio. Mutual funds invest with a certain ideology such as the "Value Principle" or "Growth Philosophy". Both have their share of critics but both philosophies work for investors of different kinds. Identifying the proposed investment philosophy of the fund will give an insight into the kind of risks that it shall be taking in future.

- Knowing when to exit a scheme of fund too is of utmost importance. One should book profits immediately when enough has been earned i.e. the initial expectation from the fund has been met with. Other factors like non-performance, hike in fee charged and change in any basic attribute of the fund etc. are some of the reasons for to exit. Investments in mutual funds too are not risk-free and so investments warrant some caution and careful attention of the investor. Investing in mutual funds can be a dicey business for people who do not remember to follow these rules diligently, as people are likely to
commit mistakes by being ignorant or adventurous enough to take risks more than what they can absorb. This is the reason why people would do well to remember these rules before they set out to invest their hard-earned money.

**Conclusion:**

We all sacrifice the present consumption and save the money through various investment channels for our future. The hard-earned money should be invested in a profitable way so that our investment objectives will be met. Investors do invest their resources for long-term capital appreciation. The mutual fund industry is a lot like the film star of the finance business. Though it is perhaps the smallest segment of the industry, it is also the most glamorous – in that it is a young industry where there are changes in the rules of the game every day, and there are constant shifts and upheavals. The mutual fund is structured around a fairly simple concept, the mitigation of risk through the spreading of investments across multiple entities, which is achieved by the pooling of a number of small investments into a large bucket. Yet it has been the subject of perhaps the most elaborate and prolonged regulatory effort in the history of the country. Mutual fund market has now grown into a great material market with a lot of qualitative inputs and emphasis on investor protection and disclosure norms. The market has become automated and self-driven. It has integrated with global markets, with Indian companies seeking listing on foreign mutual funds floating their schemes and thus bringing expertise in to our markets. Different investment avenues are available to investors. Mutual funds also offer good investment opportunities to the investors. Like all investments, they also carry certain
risks. The investors of to-day are well informed than their predecessors of yesterdays. They are better informed and better treated. They want to be secure when they aspire to become rich, want to save while they are tempted to spend, want to feel the joy of pride and avoid the pain of regret. The investors should compare the risks and expected yields on various instruments while taking investment decisions. The investors may seek advice from experts and consultants including agents and distributors of midcap funds schemes while making investment decisions. However every agency in the mutual fund market should plan their strategies for profiting the investors in the long term. The potential investor must be properly educated and guided in a manner that more idle resources and resources invested in other avenues are diverted towards the mutual fund market.

The aftermath of economic recession tumbled the capital markets all around the world to a greater extent and no wonder that we are exempted. Despite, Indian capital markets are shown remarkable developments over a period of time. In this context, contribution from mutual fund industry to overall development of capital market is significant. Hence, mutual funds have started offering wide array of products, which would meet the requirements of investors. Many foreign institutions are coming to India to launch their financial products on account of existence of prospective opportunities in India. Many occasions, Investors may not earn high amount of return by taking possible risk reduction methods. During the study period all midcap funds were more volatile with negative returns. No investor should forget that the strong investment decision stems from the quantitative analysis. This research work has facilitated the researcher to gain immense amount of new knowledge about mutual fund operation with reference to the midcap fund and which
will also help prospective investors to structurise their investment decisions in the future.