Chapter 7

DATA INTERPRETATION & OBSERVATIONS
# Chapter 7

## DATA INTERPRETATION & OBSERVATIONS

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</table>
7.1) **Observations regarding composition of Index Funds**

1) **Availability of Index Fund Schemes**

Almost all the Asset Management Companies (AMCs) have at least one Index Mutual Fund Scheme in their product range. Some of the AMCs are having more than one schemes—one for tracking the BSE Index (Sensex) and another for tracking the NSE Index (Nifty). Some older and bigger (AUM wise) AMCs are having unique schemes which offer index benefits as well as the benefits of investing in non-index stocks as well.

2) **Replication of benchmark index.**

As most of the Index Fund Schemes aim to mimic the benchmark index, they invest in the same fashion and in same weightage like the index across various sectors. As a result, the sector-wise allocation is same as sector allocation in Index. Almost all the Index Funds under study try to mimic the benchmark index.

3) **Investment in Money Market**

Some funds invest in Money Market securities as well. E.g. Funds like Principal Index Fund invest up to 10% of its investment in money market. Such fund carry the benefit of getting freedom for the fund manager regarding the investment decisions. In addition, such funds provide some extent of safeguard to the investors by investing in the instruments other than stock market which balances the risks.

4) **Extended Index Funds**

Some Index Funds invest in the stocks other than the benchmark index. For example, HDFC Sensex Advantage Fund has stated that
the balance 10 to 20 percent will be actively managed across the market caps, enabling the Fund Manager to pick stocks that have the potential to outperform the Sensex.

5) **Entry Load.**

As per the circular by the SEBI, none of the fund is charging entry load since August 2009. This was the welcome step taken by the SEBI in favour of the investors of mutual funds. However this decision further explained that the mutual fund advisors should charge the fees separately for the consultancy and services provided by them. It is expected from the investors that they evaluate the services of the advisors before paying the consultancy fees. This decision has made it possible for the investors to get better services which was not possible earlier when every investor was required to pay specific percentage of entry load irrespective of the quality of the services provided by the advisors.

6) **Exit Load**

Exit loads are the charges paid by the investors who redeem their investments before a specific period of time from the date of the investment. It is observed by the researcher that every fund has its own policy as regards to exit load as explained below.

<table>
<thead>
<tr>
<th>Name of the Index Fund</th>
<th>Exit Load</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) ICICI Prudential Index Fund</td>
<td>Exit Load = 0.25% for redemption within 7 days.</td>
</tr>
<tr>
<td>2. Tata Index Fund- Sensex Plan -</td>
<td>Exit Load= 4% for redemption within</td>
</tr>
<tr>
<td>Name of the Index Fund</td>
<td>Exit Load</td>
</tr>
<tr>
<td>-------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td>A</td>
<td>90 days.</td>
</tr>
<tr>
<td>3.ING Large Cap Equity Fund</td>
<td>Exit Load= 1% for redemption within 365 days</td>
</tr>
<tr>
<td>4. SBI Magnum Index Fund</td>
<td>Exit Load = 1% for redemption within 7 days.</td>
</tr>
<tr>
<td>5. Franklin India Index Fund- BSE Sensex Plan</td>
<td>Exit Load= 1% for redemption within 30 days.</td>
</tr>
<tr>
<td>6. HDFC Index Fund-Sensex Plan</td>
<td>Exit Load- Nil</td>
</tr>
<tr>
<td>7. HDFC Index Fund – Sensex Plus Plan</td>
<td>Exit Load – Nil</td>
</tr>
<tr>
<td>8. HDFC Index Fund – Nifty Plan</td>
<td>Exit Load = Nil</td>
</tr>
<tr>
<td>9. UTI Nifty Index Fund</td>
<td>Exit Load= 1% for redemption within 15 days.</td>
</tr>
<tr>
<td>10. LIC MF Index Fund- Sensex Advantage Plan</td>
<td>Exit Load = 1% for redemption within 365 days.</td>
</tr>
<tr>
<td>11. LICMF Index Fund – Nifty Plan</td>
<td>Exit Load = 1% for redemption within 365 days.</td>
</tr>
<tr>
<td>12. Canara Robeco Nifty Index Fund.</td>
<td>Exit Load= 1% for redemption within 365 days.</td>
</tr>
<tr>
<td>13. Principal Index Fund</td>
<td>Exit Load =Nil</td>
</tr>
</tbody>
</table>
From the above details it can be observed that majority of the funds have a policy of charging exit load of 1% for redemption within 365 days of the investment. However some funds have different exit loads like some exit load for redemption within 7 days or 90 days. Some funds do not have exit load at all.

7.2) Observations regarding Operating Expenses
The analysis of average expense ratios of all the selected Index Funds is reflected in the graph in the DATA ANALYSIS Chapter 6. As against the expense ratios of some of the individual Index Funds, there seems to be stability and consistancy in average expenses.

Following are major observations in this regard

1) Higher expense ratios
The highest average expense ratio is in the year 2007 (1.67%) The average expense ratio while the lowest average expense ratio was in the year 2011 (1.26%)

2) Higher expense ratio when market conditions were favourable.
If we analyse the stock market movements during these periods and co-relate the same with the average expense ratio, it can be observed that the maximum average expense ratio was during the year 2007-2008 when the Indian stock markets were at their peak. Thus it seems that the fund managers tend to spend more when the market conditions are favourable. The obvious reason behind the same can be like it is easier to attract the investors when the mutual funds are delivering good returns. Under such situations, fund manager perhaps donot bother to spend some extra amount for attracting and retaining the investors.
3) **Lower expense ratio when market conditions were not favourable.**

When the stock markets were not doing well, the expense ratio also is on lower side. This can be observed in the year 2010-2011 when Indian stock markets were facing problems and overall sentiments were not good, the average expense ratio were lowest (1.26%).

4) **Average expense ratio.**

Overall the average expense ratio of the selected Index Funds is on higher side as compared with those of International Index Funds. The average expense ratio of the 7 years of study for the selected index funds is on higher side. Even the lowest average expense ratio of 1.26% is on much higher side as compared to the international competitors.

5) **Lesser amount of Assets Under Management**

One obvious reason for higher expense ratio of India Index Funds as compared to the international Index Funds can be very less amount of assets under management (AUM) of Indian Index Funds. The size of AUMs of Indian Index Funds is very low and in no way can be compared with the international Index Funds. However, irrespective of the size of the fund, every fund has to spend on its operating activities. Such fixed costs cannot be avoided by any of fund including Index Funds. As a result, such fixed costs contribute to the major part of the fund expenses which results in higher expense ratio of the fund.
7.3) **Observations regarding tracking errors**

On the basis of the above information following important and major reasons are found for the higher tracking error for different Index Funds. In fact the fund manager and his team always try to minimize the tracking error by taking various steps however because of some practical difficulties, their efforts are restricted.

1. **Expenditure incurred by the fund:**

The common expectation of the investors in Index Funds is that the funds should deliver exactly same returns like benchmark index. Theoretically, all the funds have to be invested in the stocks of the benchmarked Index as the objective of the scheme is to mimic the returns of the underlying index. However practically it is not possible. The fund incurs expenses towards its day to day activities like payment of transaction fees which is payable at the time of purchase and sale of the stocks. These costs are met out of the corpus of the Funds which makes the lesser funds available for the actual investment. This in turns affects the returns as the fund will receive returns only on the amount which is invested. Hence, the lower the expenditure incurred by the fund, the lower is the tracking error.

1. **Requirements to maintain the cash balance:**

As pointed out above, it is expected that the total funds available for the Index Funds should be invested in the benchmark stocks. However practically, the fund manage has to keep sufficient cash balance with him to meet following requirements.
- Obligation to meeting the requests of redemption by the investors.

- Obligation to pay to the dividend to the investors

- Further, the fund may receive dividend on the shares held by it which should again be invested in the constituents of the benchmarked index as soon as possible. If the fund is not able to invest such dividend then it holds more cash than required and hence its returns would be affected.

- Similar is the cash of subscription for purchase of units of the fund. So when the funds hold more cash, it has that much less to invest in the underlying index and thus it leads to mismatch in the returns. It should be the endeavor of the fund to keep the right amount of cash which at the same time can provide for redemption request and should not be ideal.

2. **Securities breaking the circuit limit**

Sometimes it may happen that the underlying securities may breach the upper or the lower circuit hence the fund may not be able to hold the securities in required numbers which could lead to inability to mimic the index fully. It may also happen that due to the circuit filters the fund is not able to buy or sell securities at the desired price or at the same time when the rest of the underlying securities are purchase or sold. This leads to difference in the allocation of fund available to the portfolio of stocks.
4. **Difficulties in giving effects for corporate actions.**

For an index fund manager, it is the very difficult task to give the immediate effects for the corporate actions. Following are some of the corporate actions where the fund manager has to readjust his portfolio.

- Bonus Share,
- Right Shares
- debenture or warrant conversion
- merger etc

All these actions result in buying and selling which add up to the expenditure which again affect the returns of the fund. Also, the realignment has to be proper; otherwise there would be a mismatch in the investment in each security of the benchmarked Index vis-a-vis the actual weightage of each security in the benchmarked Index.

5. **Practical problems due to Rounding off.**

Index fund manager has to maintain the stocks of the benchmark index in the same proportion and same weightage. But the practical problem is that the stocks cannot be purchased in fractions. He has to manage these things by keeping a close track.

Following are the details of average tracking error of selected Index Funds during the period of Study of the year 2005 to the year 2011
Annualised Tracking Error of selected Index Funds.172
(In Descending Order)

Table 43 - Annualised Tracking Error of index funds

<table>
<thead>
<tr>
<th>Index Fund Scheme</th>
<th>Annualized Tracking Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC MF Index Fund- Sensex Advantage Plan</td>
<td>-5.16%</td>
</tr>
<tr>
<td>LICMF Index Fund – Nifty Plan</td>
<td>-3.51%</td>
</tr>
<tr>
<td>HDFC Index Fund – Nifty Plan</td>
<td>-2.36%</td>
</tr>
<tr>
<td>Principal Index Fund</td>
<td>-1.94%</td>
</tr>
<tr>
<td>Tata Index Fund- Sensex Plan –A</td>
<td>-1.44%</td>
</tr>
<tr>
<td>ING Large Cap Equity Fund</td>
<td>-1.28%</td>
</tr>
<tr>
<td>SBI Magnum Index Fund</td>
<td>-1.25%</td>
</tr>
<tr>
<td>Canara Robeco Nifty Index Fund</td>
<td>-0.94%</td>
</tr>
<tr>
<td>Franklin India Index Fund- BSE Sensex Plan</td>
<td>-0.35%</td>
</tr>
<tr>
<td>UTI Nifty Index Fund</td>
<td>0.72%</td>
</tr>
<tr>
<td>HDFC Index Fund-Sensex Plan</td>
<td>1.33%</td>
</tr>
<tr>
<td>HDFC Index Fund – Sensex Plus Plan</td>
<td>1.33%</td>
</tr>
<tr>
<td>ICICI Prudential Index Fund</td>
<td>1.49%</td>
</tr>
<tr>
<td>Average Tracking Error</td>
<td>-1.03%</td>
</tr>
</tbody>
</table>

172 Average of 7 years from the year 2005 to the year 2011
1) **Funds which outperformed the benchmark index.**
Some of the Index Funds have outperformed the benchmark indices. Out of 13 funds considered for the Study, such funds are 4 in number. ICICI Prudential Index Fund has outperformed the benchmark index by the maximum difference of 1.49%

2) **Funds having the tracking error lesser than average tracking error.**
There are some funds which have not outperformed the benchmark indices but their tracking error is comparatively lower and lesser than average tracking error. Franklin India Index Fund- BSE Sensex Plan (-0.35%) and Canara Robeco Nifty Index Fund (-0.94%) are two such funds out of 13 funds selected for the study.

3) **Funds having higher tracking error than the average tracking error.**
7 funds are having the annualized tracking error more than the average tracking error. It indicates the extra expenditure and lack of keen control on the activities of the funds. LIC MF Index Fund- Sensex Advantage Plan is having the highest tracking error of 5.16% followed by LICMF Index Fund – Nifty Plan (3.51%)

4) **Average performance**
If the average tracking errors of the selected index funds are studied, the overall performance of the selected funds is satisfactory as in most of the years the average performance is ‘at par’ with the benchmark returns. However at the same time, the important points to be noted are that the average performance has never outperformed the benchmark index by handsome difference. On the contrary, in
some years it has underperformed with a very high margin e.g. in the year 2007 the average performance is underperformed by almost 4% while the underperformance in the year 2009 is 2% which is also quite disappointing.

7.4) Observations regarding Indices’ Composition.
As pointed out earlier, Index Funds are the replication of the selected benchmark index. As a result all the plus points as well as minus points of the selected index are also reflected in that Index Fund. Hence analysis of the Index is required in this Study. As major of the Index Funds are based on the concept of well known Indian indices namely Sensex and Nifty, their analysis is required which is as below.

a) BSE SENSEX (Bombay Stock Exchange Sensitive Index),)\(^{173}\)
SENSEX is the index comprising 30 component stocks of the companies listed on Bombay Stock Exchange. SENSEX was first compiled in 1986 and was calculated on a "Market Capitalization-Weighted" methodology of 30 component stocks. The base year of SENSEX was taken as 1978-79. Sensex is calculated on the basis of free-float market capitalization method since September 2003.

SENSEX is calculated using the "Free-float Market Capitalization" methodology, wherein, the level of index at any point of time reflects the free-float market value of 30 component stocks relative to a base period. The market capitalization of a company is determined by multiplying the price of its stock by the number of shares issued by the company. This market capitalization is further

\(^{173}\) www.bseindia.com
multiplied by the free-float factor to determine the free-float market capitalization.

The base period of SENSEX is 1978-79 and the base value is 100 index points. This is often indicated by the notation 1978-79=100. The calculation of SENSEX involves dividing the free-float market capitalization of 30 companies in the Index by a number called the Index Divisor. The Divisor is the only link to the original base period value of the SENSEX. It keeps the Index comparable over time and is the adjustment point for all Index adjustments arising out of corporate actions, replacement of script etc. During market hours, prices of the index script, at which latest trades are executed, are used by the trading system to calculate SENSEX on a continuous basis.

b) **S & P CNX NIFTY (Standard & Poor Composite NSE Fifty)**

The S&P CNX Nifty is the index of NSE (National Stock Exchange of India Ltd). It includes 50 companies of the approximately 1430 companies listed on the NSE. It captures approximately 65% of its float-adjusted market capitalization.\(^{174}\)

The Index has been trading since April 1996 and the base period for the S&P CNX Nifty index is November 3, 1995, which marked the completion of one year of operations of NSE's Capital Market Segment.

\(^{174}\) Nseindia.com
The S&P CNX Nifty is owned and managed by India Index Services and Products Ltd.(IISL), which is a joint venture between the NSE and CRISIL. IIS L is India’s first specialized company focused on an index as a core product.

All common shares listed on the NSE (which are of equity and not of a fixed income nature) are eligible for inclusion in the S&P CNX Nifty index\textsuperscript{175}. Convertible stock, bonds, warrants, rights, and preferred stock that provide a guaranteed fixed return are not eligible.

Following are the observations in this regard.

1) **No place for ‘weak’ scripts**

Both the major indices of Indian Stock Market namely Sensex and Nifty include fundamentally strong stocks. Sensex does not include any script which is in Z group as per the ‘Groupings’ of BSE. It also does not include any script which is objected by the Surveillance department of the Exchange\textsuperscript{176}. Nifty also includes fundamentally strong shares. Nifty stocks capture approximately 65% of its float-adjusted market capitalization\textsuperscript{177}. Many of the stocks are common in Nifty and Sensex.

2) **Regular trading of the scripts**

Another criterion for inclusion of any script in Sensex and Nifty is that the scrip should have been traded on each and every trading day in the last three months at BSE. This criterion ensures that the

\textsuperscript{175} Standard & Poor’s: S&P CNX Nifty Methodology www.nseindia.com
\textsuperscript{176} Bseindia.com
\textsuperscript{177} Nseindia.com
scripts having regular volume in the market qualify for the inclusion in the Index. Further it can be noticed that all the companies in the Sensex and Nifty are large-cap companies which are relatively well established in their respective business operations.

3) **Stocks having sector representation.**

The stocks included in the indices are the representation in their respective sectors. In other words, BSE and NSE assure that scrip selection generally attempt to maintain index sectoral weights that are broadly in-line with the overall market. Further all the scripts included in index have good track record of their respective core business activities. The stock exchanges have established separate committees for ensuring the same.¹⁷⁸

However, the process of construction and composition of index funds are not free from criticism and drawbacks which are as below

1. **Sector biasness**

One basic criticism of index as well as of index funds is that they are sector-biased and if that sector stocks do not deliver good performance, index and index funds also fall in tandem and vice versa. If we consider the sector allocation of major Indices namely Sensex and Nifty, we can observe that there is more emphasis on specific sectors while some of the sectors have very negligible allocation or do not have any allocation at all.

¹⁷⁸ [www.bseindia.com/indices/DispIndex.aspx](http://www.bseindia.com/indices/DispIndex.aspx)
2. **Ignorance towards real strength of the stocks.**

Neither the Index Fund investors nor the Index Fund Managers consider the “real value” of the stocks wherein the Fund is investing. Stocks having potential, thus, mere following the Index stocks without considering their real value may not be good for the investors which happen in case of Index Funds.

3. **Over-dependence on large-cap companies.**

Both the major indices of the Indian stock market namely Sensex and Nifty have overdependence on large-cap stocks. Large-cap stocks are preferred for safer investment in the long run. However, overdependence on large-cap stocks may result in losing opportunities of good mid-cap and small cap stocks. These limitations are reflected in the index funds also which invest in index shares only.

4. **Inability to react**

This limitation is because of the inbuilt passiveness of the index as well as of index funds. For instance, if there are good policy changes in favor of specific sector, a normal fund manager can plan to increase the weightage of his investment in that sector stocks however such planning cannot be done in the Index Fund investment. Thus index and index fund Managers do not have any control over the holdings of individual stocks in the portfolio. This limits the exposure to different investment strategies. Another observation is that as the Index Fund Managers have to follow the indices’ portfolio weights in order to minimize their tracking error, they hold on to the all those scripts till it does not get dropped from Index due to some reason while active managers sell them weeks or
months before they’re dropped from the index. At the same time, Index Fund Managers don’t start buying the newly added companies until they’re officially added in Index while active managers already have the new stocks in hand.

7.5) Observations regarding investors’ responses

1) Distribution of the investors

1) Maximum participation of the investors in mutual funds is from the occupation of business (38.20%) followed by service (34.5%).

2) Minimum participation is from the housewives (7.4%) and the students (0.1%)

3) Professionals and retired people have moderate participation of 7.50% and 12.20% respectively.

4) Maximum participation in the investment of Index Mutual Funds is by the investors having annual income within the range of Rs.5 Lacs to Rs 10 Lacs (30.20%) followed by the investors having annual income above Rs.10 Lacs

5) Investors in the age-group of 31 to 50 contribute maximum in the investment of Index Funds

6) Investors who do not have financial liability invest more in Mutual Funds (54.60%) as compared to the investors having financial
liability (45.40%). Around 16.50% investors didn’t share information about their financial liabilities.

**Interpretation –**

People in service sector and having own business have more inclination towards the mutual fund investments as compared to people in other occupation.

People having income more than Rs 5 Lacs p.a. are more interested to invest in mutual funds. The probable reasons for the same can be their financial capacity to spare income for regular investment and capacity to take the risk associated with mutual fund investment. Furthermore number of people who do not have financial liabilities invests in mutual funds as compared to those who do have financial liabilities

2) **Awareness about the Mutual Funds & Regularity in Mutual Fund Investment.**

1) Out of the 994 investors surveyed during the Study, 306 investors (30.80%) expressed that they do not have any knowledge about the mutual fund investment though they are investing in Mutual Funds.

2) Only 31% investors have good working knowledge while 38% investors have working knowledge about mutual funds.

3) About 81% investors accepted that they are irregular in their Mutual Fund Investment. In other words, only 171 investors out of 994 investors (17%) were sure that they invest regularly in Mutual Funds. 2% investors were not aware whether they were regular or not in their investments in Mutual Funds.
Interpretation-
As reflected in the study, many investors do not have the knowledge of the basic concepts of mutual funds. As a result, large portion of the investors are not aware that regularity is required in mutual fund investments for getting good returns. This can be one of the reasons behind lesser participation of retail investors in the mutual fund investment.

3) Observations regarding period of investment and plan of investment

1) Around 61% investors were investing for a period of 1 to 3 years while 14% investors were investing below 1 year. Only 25% investors were investing for a period more than 3 years.

2) As regards to future plan to invest in mutual funds, 43.30% investors have planned to invest for a period of 1 to 3 years while 42% investors have planned to invest for a period below one year. Thus around 85% investors have a plan to invest in mutual funds for a period up to 3 years.

3) 14 investors (1.4%) investors do not have any specific plan of their mutual fund investment.

Interpretation-
Major portion of the investors invest in mutual funds for a period between 1 to 3 years. Infact this is not sufficient period of investment in mutual funds including Index Mutual Funds for expecting good returns. On the same lines, future plan of these investors to remain in mutual fund investments is also below 3 years. This indicates the lack of awareness
about the mutual funds’ including Index Funds’ investment amongst the investors. Consistency in the investment in is highly expected in Index Funds for good returns, however as reflected in the survey, maximum percentage of investors do not have long term plan of investment.

4) **Mode of Investment**

1) The number of investors investing through the Systematic Investment Plan (SIP) is more than the investors investing lump sum amount in mutual funds. Around 46% investors informed that they prefer the lump-sum investment while around 54% investors preferred the Systematic Investments Plans for their investment.

Lump-sum investment in mutual funds includes onetime investment in the selected fund. Though it is simple and easy to adopt, it carries higher risk as one cannot anticipate the market movements precisely and nobody can claim the current market price is the cheapest price. On the other hand SIP offers the benefit of cost averaging. It also cultivates the discipline of regular investment for a retail investor. It is reflected that more than half of the investors prefer the SIP route of investment. However this percentage should go up by more number of investors starting their investments through SIP route.

**Interpretation -**

It is good sign that more number of investors are following the SIP mode of investment in mutual funds as compared to lump sum investments. However the research could not verify that all the investors who preferred SIP mode of investment were actually following the SIP route at the time of actual investment.
5) **Type of fund selected for investment**

1) 42.30% investors preferred Sectoral Funds over other funds for their mutual fund investment followed by Diversified Funds which were preferred by 35% investors. Index Funds are preferred by around 22% investors.

2) Around 1% investors preferred two types of funds (like Diversified & Sectoral or Diversified & Index Funds) for their mutual fund investments.

**Interpretation**-

Amongst the various types of Equity Mutual Funds, Sectoral Funds are preferred most by the investors followed by Diversified Funds. The probable reason behind the same is that Sectoral Funds are always in limelight because of higher returns in the short run. However, in the long run it is not possible for every Sectoral Fund to maintain same level of performance in the long run. Index Funds are least preferred by the investors.

6) **Awareness about Index**

1) Out of total investors, 308 investors having good knowledge about the Index concept and Index Funds’ working maximum investors are from the group of 31 to 50 years.

2) Out of total investors, 380 investors having working knowledge also, and maximum investors are from the age group of 31 to 50 years.
3) Maximum investors (45 out of 47 investors) from the age group below 30 years do not have knowledge of the Index concept as well as of the workings of Index Funds.

**Interpretation-**

It is reflected that the investors in the age group of 31 to 50 years have better knowledge about the index as compared to the other age groups. The age group of below 30 years has the least number of investors having good knowledge of the index. These findings of the survey seem to quite obvious, as the investors in the age group of 31 to 50 years are the investors who are toned with the market terminologies as well as market workings.

7) **Awareness about ‘Index Funds’**.

1) 534 investors (53.70%) were not aware about the concept of “Index Funds” though they were investing in Mutual Funds

2) 533 investors were not interested to invest in the stocks consisted in leading indices of Indian stock market namely Sensex and Nifty.

3) Almost 69% of the mutual fund investors were not fully aware about the concept of “Index Funds” as many of them were not aware about the concept Index itself. Out of these investors 52% investors are partly aware of the concept Index Funds while around 17% investors were not at all about this concept.

**Interpretation-**

These are the very important findings of the Study. The study has indicated that major portion of the investors (53.70%) are not even aware
of the concept ‘Index Funds’ though they are investing in mutual funds. Further a large number of investors (533 investors) are not interested to invest in stocks of Sensex and Nifty. This shows either lack of knowledge of the basic concept of index or a plan to invest in non-index stocks only and the fact is that the both the things are not good for a retail investor.

8) Percentage of total Investment in Index Funds
Around 37% of the investors invest 25% of their individual total investment in Index Funds while only 0.20% investors invest up to 50% of their investment in Index Funds.

Interpretation :-
There is lesser awareness about the concept ‘Index’ though they invest in mutual funds As a result they are not aware about the concept of Index Funds. Infact many investors have expressed that they wish to invest in the stocks included in index but due to the absence of proper information they do not invest in Index Funds.

9) Opinion about Index Fund
1) Around 27% of the investors strongly agree that Index Fund is the simpler & cost effective instrument of mutual fund investment while around 28% investors agree with this statement

2) Only 0.70% of the investors strongly agree with the statement that Index Fund is the simpler & cost effective while around 13% investors disagree with this statement

3) 32% investors were neutral about the statement.
10) **Investors opinion on the statement-"index funds must be part of every mutual fund investor's portfolio.**

1) Around 53% investors agreed that Index Funds must be a part of every mutual fund investor’s portfolio out of which around % strongly agreed with this statement.

2) Around 15% investors disagreed with the statement that Index Funds must be part of every mutual fund investor’s portfolio.

3) Around 32% investors were neutral about this statement.

**Interpretation-**
Major part of the investors agrees that Index Fund is simpler and cost effective instrument of investment in Mutual Funds. They equally agree that Index Funds should be part of the every mutual fund investor. However if actual, it is reflected that few of them actually invest in Index Funds. This shows contradiction between thinking process and implementation of the same.

11) **Age Group-wise preference for the funds**

1) **Investors group of age up to 30 years**
The investors group of age up to 30 years prefers Sectoral Fund only. None one the investor out of 47 investors surveyed in this group has given preference to Diversified Fund or Index Fund. The probable reason can be that these age group investors get attracted by the performance of the Sectoral Funds in the short run. Sectoral Funds may perform well in short
period depending upon the economic conditions for the specific sector and as a result such funds can deliver better results in short period. The other categories of the equity funds namely diversified funds and Index Funds are mainly an investment instrument for the long run which seem to be overlooked by this group of investors.

2) **Investors group of the age between 31 to 50 years.**

Out of 643 investors in this group, following are the preferences given by the different investors:

- Diversified Funds = 234 (36%)
- Sectoral Funds = 295 (46%)
- Index Funds = 110 (17%)
- Other Funds = 4 (1%)
- Total = 643

In this age group also, preference by the maximum investors (46%) is given to sectoral funds followed by diversified funds (36%) and Index Funds (17%). Investors in this group generally have a long term investment plan hence they take into consideration various factors unlike the investors group below 30 years.

3) **Investors group above 50 years.**

In this age group, following are the preferences given by the investors for the different types of mutual funds.

- Diversified Funds = 114 (37%)
- Sectoral Funds = 78 (26%)
Index Funds = 108 (36%)
Other Funds = 4 (1%)
Total = 304

This group has given equal preference to diversified funds and Index Funds. Further only 26% investors have given their preference to the Sectoral Funds.

12) Occupation-wise classification of investment period

1) Maximum percentage of the investors having occupation of Service (33%) and retired people (48%) invests in mutual funds for a period of more than 3 years.

2) Maximum percentage of housewives (94%) followed by professional people (87%) invest for a period of 1 to 3 years.

3) Maximum percentage of businessmen (23%) invest for a period lesser that one year followed by servicemen (13%)

Interpretation-
From the above statistics it is indicated that the retired people has a longer period of investment plan as compared to other categories of the investors. Housewives and professionals tend to have an investment outlook for their mutual fund investments.

As regards to the businessmen, they have the maximum participation in the overall number of investors participated in the survey. However majority of the businessmen have an investment plan of either 1 to 3 years or even
below 1 year. In other words, very few businessmen have their investment plan for a period of more than 3 years.

13) **Occupation-wise mode of investment in mutual funds**

1) Out of total 994 investors surveyed, 535 investors (53.82%) preferred the SIP route of investment.

2) Out of the surveyed investors, maximum percentage of retired people (97.52%) preferred the SIP route of investment followed by the businessmen (57.36%)

3) Housewives preferred lump-sum investment (around 92%) which indicates lack of awareness about the SIP route among them.

4) The only student who was covered in the Survey preferred the SIP route of investment

**Interpretation**-

Though the overall preference for the SIP route is higher as compared to that for lump-sum investment, if detailed category wise analysis is carried out, it makes the picture clear as not all the investors equally prefer the SIP route.

It is observed that some of the categories like retired people and businessmen prefer the SIP route while other categories of the investors like housewives hardly prefer the SIP route. It indicates the absence of awareness of safer & disciplined route of investments in mutual funds amongst all the categories of investors.
14) **Factors affecting the decisions of investors** – (Scaling between 1 to 5)

1) Mutual Fund investors give maximum importance to the’ advice by mutual fund advisor’ while taking their mutual fund investment decisions. The average scale for the advice by the mutual fund advisor is 4 which is the maximum amongst all the parameters. It indicates the psychology of the mutual fund investors. They try to rely on the advice given by the advisors. In other words, it can be concluded that the investors invest in those mutual fund schemes which are liked by the advisors. A mutual fund scheme which may be good enough in all respects may be ignored by the investor only because of the reason that the scheme is not recommended by his advisor.

2) Investors have given second preference to the ‘Lock-in period of the scheme’ at the time of the selection of mutual fund scheme for investment. The average scale for the lock-in period is 3.90. This indicates that investors are concerned more about the fact whether it is mandatory to remain invested in the specific mutual fund scheme or not and do not want to get their funds locked by any specific rule. In other words investors prefer open-ended schemes over close-ended schemes.

3) Investors have given moderate importance to the parameters like convenience in the transaction, stock market movements and dividend frequency by the mutual fund scheme
Interpretation-
The parameter like convenience in the transactions seems to important for the investors because of various problems in approaching to various mutual fund companies for the purpose of mutual fund investment related transactions. By this way, a mutual fund company having better network can attract more number of investors as compared to the other mutual fund company.

The movement in stock market also seems to affect the decisions of the mutual fund investors to a considerable extent. Infact mutual fund is the investment vehicle which helps the common investor to overcome the threats due to ups and downs in the market by adopting a route like SIP. However, still investors seem to try to time the market.

4) Least importance is given to the ‘Investment strategy of the mutual fund scheme’ and to ‘Performance of the Fund’ while selecting specific mutual fund scheme for investment.

Interpretation :-
Performance of the Mutual Fund and its investment strategy are very important criteria for evaluation of any mutual fund scheme. However it is reflected that investors do not consider these factors seriously while selecting the mutual fund for investment. It shows the lack of knowledge of mutual funds on the part of investors.

15) Misperceptions about Index Funds and Indices
This has been very crucial point. There is lack of awareness about the index funds amongst the common investors. Many investors are not aware
that there is the availability of some instrument like Index Fund by which one can buy the Market Index. Following are some of the wrong perceptions in the minds of the investors regarding Index Funds.

i) **Index Stocks change daily**
   Some of the investors are under impression that the Index stocks get changed every day depending upon “Top Gainers” of that day. Thus these investors feel that there is high volatility in the prices of Index Stocks and the investor who invests in the Index Funds has to keep the track of the same on daily basis.

ii) **Price of Index Funds is very high which is not affordable for a common investor**
   Some investors argued that investment in Index Funds is very high and beyond the reach of a common investor. This investor feels that they have to pay the amount equal to the Index Level for buying the Index Funds. For instance, if the Sensex level is at 17000 then according to (mis)perception of this investor, one will have to invest Rs 17000 to buy one unit of Index Fund. However, the fact is completely different. There is no relationship between Index level and investment amount by an individual investor.

iii) **All Index Shares have to be purchased.**
   Some of the investors assumed that the investor has to purchase one share of every Index company to buy the index. Thus the amount to be invested for buying Index Fund would be very high.
All the mis-perceptions in the minds of the investors about the Market Indices and Index Funds create an unhealthy atmosphere for the Index Funds investment and development as well.

iv) **Market indices are managed by brokers.**
As every day, there is lot of discussion in stock market regarding the probable levels of major market indices, some investors feel that the experts involved in such business discussions can manage the market the indices. They further expressed that one should not invest in these indices as a retail investor can never get any returns by such investment.

v) **Market indices are expressed in terms of Rupees.**
Another misunderstanding amongst many investors is that the market indices are expressed in terms of Rupees. In fact index is just a number indicating the combined level of stocks involved in the market indices.

vi) **Nifty Funds are cheaper than Sensex Funds**
As the level of Nifty (NSE Index) is lower as compared to that of Sensex (BSE Index), some investors feel that Nifty Index Funds are cheaper than Sensex Funds.

vii) **Stock market movements affect the index funds**
Volatility in the stock market affects the Index Funds very immediately. As the Index Funds are the mirror image of the stock market movements, their performance gets reflected very immediately after the slight movement in the stock market. Most of the time these movements are temporary and get away in longer run.
An Index Funds performance should not be measured on the criteria like such temporary movements in the stock market. However, many of the investors tend to do the same particularly when the market collapses suddenly due to some sentimental or other factors. The investors who always tempt to track the Index Funds in such conditions unnecessarily create chaos in their own minds as well as of other investors.

viii) **Dividend on Index Funds**
Dividend on the mutual funds is the part of the profits earned by the mutual fund schemes being distributed amongst the mutual fund investors. Though dividend is not the extra profit earned by the investors, it attracts & retain the common investors. The researcher observed that some investors are interested more in getting regular dividend and such investors prefer ‘dividend yield schemes’ over other mutual fund schemes. Such investors complained that they donot prefer index funds because such funds donot deliver regular dividend like dividend yield schemes.

ix) **Advice by the Mutual Fund Advisors**
Some investors informed that their advisors did not inform anything about index funds investments. Such investors were informed about sectoral funds and diversified funds only. As a result none of such investors preferred index funds for their investments.

x) **Upfront commission to Advisors**
One of the important factors which enforce the sales of a particular mutual fund scheme is the amount of commission being received by the advisor. Inspite of other favorable factors, an index fund scheme
might have a poor response by the investors because of lower commission or no commission earnings to the advisor. It is informed by some of the advisors that Index Funds do not carry any upfront commissions for the advisors. In some instances, the commission earnings on Index Funds are lower as compared to other Mutual Fund Schemes. As a result the advisors naturally were tempted to sell the other Schemes in place of Index Funds. This fact was more prominent prior to August 2009 when some of the Funds were having entry loads while few were ‘No entry-load funds’. Index funds were the part of such ‘No entry-load funds’. As a result, neither the advisors nor the AMCs were very focused on the sales of Index Funds. This has resulted in a very large AUM (Assets Under Management) for other Equity Schemes as compared to Index Fund Schemes.

7.6) Observations based on mutual fund advisors’ responses

1) Opinion on the capacity of index funds’ to give returns in the long run

More than 67% of the mutual fund advisors have scaled the index funds’ capacity as 4 & 5 (scale between 1 to 5) and have expressed their opinion that Index Funds have the capacity to deliver equal returns as compared to other types of mutual funds in the long run.

33% of the mutual fund advisors have scaled index funds at the scale of 3 on their capacity to deliver good returns.

It is noticeable point that none of the advisor has given adverse remark against the capacity of Index Funds’ to deliver good returns in the long run.
Interpretation-
From the data it is evident that most of the mutual fund advisors believe in the Index Funds’ capacity to deliver good returns in the long run. Not a single advisor has expressed negative remark on index funds’ capacity of delivering good returns in the long run.

2) Opinion on simplicity in investment philosophy
Almost 100% of the advisors are of the opinion that Index Funds work on simple investment philosophy which can be understood by the common investors who do not have in-depth knowledge of mutual fund investments.

Interpretation-
This implies that a new investor who is not aware of the complexities of the mutual fund investments should go for the investment in Index Funds.

3) Opinion on Cost effectiveness of Index Funds
Almost 85% of the advisors feel that Index Funds are more cost effective as compared to other mutual funds

Interpretation-
Investors who are more concerned about the operating costs of the funds should invest in Index Funds.

4) Agree to statement-"index fund is simpler, cheaper investment"
89% advisors agree with statement that “Index Funds are simpler and cost effective as compared to other funds”.

250
Interpretation-
Investors who are looking for a simpler and cost effective instrument of mutual fund should invest in index funds.

5) **Agree to statement-"index funds must be part of every mutual fund investor's portfolio"**
Almost 90% advisors agree to the statement that “Index Funds must be part of every mutual fund investor’s portfolio. Out of these investors 11% advisors strongly agree to this statement. 6% advisors are neutral while only 9% advisors do not agree with this statement.

Interpretation-
Maximum number of advisors have recommended the index funds to be the part of every mutual fund investors’ portfolio.

6) **Factors affecting the decisions of mutual fund investors (as per opinion of mutual fund advisors)**
Following are the observations based on the replies given by the mutual fund advisors.

1) **Lock in period**
Maximum weightage by the mutual fund investors is given to ‘lock-in period’ of the scheme, if applicable. In other words, according to mutual fund advisors, investors ask for the mutual fund schemes having minimum lock-in-period or schemes without lock-in-period i.e. Open Ended Schemes
2) Advice by the advisors -
Another important factor considered by the investors while selecting mutual fund scheme is ‘advice given by the advisors. It clearly points out that mutual fund advisors also accept that advice given by them plays a vital role for the investors.

3) Dividend Frequency and Movement in stock market
'Dividend frequency of the scheme ‘ and ‘movement in stock market levels’ also affect the decisions of the investors

4) Performance of the fund & Investment Strategy
Surprisingly, performance of the fund and its investment strategy are the least important factors according to the investors while selecting the funds. In fact these two factors are the most important factors amongst all the factors. However, they seem to be overlooked by the investors.