Chapter VI

Summary of Findings, Suggestions and Conclusion
Findings of the Study

The followings are the major findings of the present study.

1. Indian Mutual Funds Industry is relatively new but it has grown at a rapid speed influencing various sectors of financial markets and the national economy.

2. The Mutual Funds is one type of an investment that mobilizes savings of individuals and institutions and channelises these savings into corporate securities to provide investors with a steady stream of returns and capital appreciation.

3. The UTI began its operations in July 1964 by launching its first scheme namely, US-64 (an Open-Ended Scheme). Later, it launched several innovative and widely accepted schemes as Children’s Gift Growth Fund Unit Scheme in 1986 and Master Share in October 1986, which was the first Closed-Ended Scheme in India.

4. The net resource mobilization of UTI started with Rs. 1.27 crores in 1965-66 and the amount increased to Rs. 1345.34 crores at the end of the first phase (1986-87).

5. It is found that during the period 1987-1992, eight new Mutual Funds Companies, which include six Public Sector Banks and two the Insurance Corporations, were incorporated.

6. It is to be noted that the net investible resources of Mutual Fund Industry, which stood at Rs.1345.34 crores at the end of June 1987, grew exponentially to Rs. 13021 crores by the end of June 1992.

7. In India, the private sector was permitted to set up Mutual Funds in 1993. In the year of 2007-08, the Private Sector Mutual Funds mobilized Rs. 163275 crores.

8. It is found that the total Asset Under Management of Mutual Funds Companies has increased nearly five times from 2000 to 2008.
Analysis of Risk and Returns Relationship and Traditional Models

9. According to risk and returns analysis of this study, only two sample schemes, namely, Principal Child Benefit Fund (Super Saver) – Dividend and ING Vysya Select Stock Fund – Dividend under Dividend Option were significantly related to their market risk and returns during the study period.

10. It is to be noted from the analysis that there was no significant relationship between selected sample schemes under Growth Option and the market in terms of risk and returns relationships during the period 2002 to 2007.

11. The t-alpha values calculated for this study indicate that the majority of the sample schemes' excess returns were not significantly different from their market returns.

12. It is clear that more than 50 percent of sample schemes under Dividend Option performed better than their respective benchmarks during the study period. At the same time, more than two thirds of sample schemes under Growth Options outperformed their benchmark but not significantly.

13. From the ranking orders of sample schemes, it was found that schemes were not equal under both Treynor and Sharpe Ratios. The reason for such conflict was due to the fact that Sharpe Ratio considered the total risk whereas the Treynor Ratio considered only the systematic risk.

Analysis of Market Timing Ability of Fund Managers

14. It is to be noted from the analysis that Managers of majority of the sample Mutual Fund Schemes under Dividend Option were not correct market timers under both unconditional TM and HM Models during the study period.

15. The Fund Managers of Franklin India Prima Fund – Dividend and Growth showed positive market timing ability under unconditional TM and HM Models during the study period.

16. Fund Managers of SBI Magnum Pharma Fund – Growth displayed the highest wrong market timings under both unconditional TM and HM Models.
17. It is found that more than fifty percent of sample Mutual Fund Schemes' Managers under Growth Option were not significant market timers during the study period. The Franklin India Prima Fund – Dividend employed the highest correct market timer under both conditional TM Model and HM Model.

18. The Principal Child Benefit Fund (Super Saver) – Dividend suffered from poor market timing ability under both conditional TM Model and HM Model.

19. The majority of sample schemes under Growth Option generated positive significant value to their market timings under both conditional TM and HM Models. Unconditional and conditional TM and HM Models indicate that out of hundred and sixteen sample schemes, nearly one fifth of the sample schemes (20%) were considered to be good market timers for the whole study period.

Analysis of Stock Selection Ability of Fund Managers

20. It is found that that Managers of majority of sample Mutual Fund Schemes under Dividend Option experienced insignificant stock selection skills to their market movements during the study period. Three sample schemes under Dividend Option from Birla Sun Life Asset Management Company Limited and HDFC Asset Management Company Limited showed superior stock selection ability of Fund Managers during the whole study period.

21. From the unconditional TM and HM Models, it is found that four sample Mutual Fund Schemes' Managers under Growth Option suffered from negative stock selection ability during the whole study period.

22. Reliance Capital Asset Management Ltd, HDFC Asset Management Company Limited and Principal PNB Asset Management Co. Pvt. Ltd proved their better stock selection skills during the whole study period under both unconditional TM and HM Models.

23. Only one scheme under Dividend Option, namely, Principal Child Benefit fund (Super Saver) – Dividend proved better stock selection ability under conditional HM Models.
24. It is to be noted that selected sample schemes under Dividend Option did not have adequate information efficiency for selecting the stocks under conditional TM and HM Models during the study period 2002 to 2007. Only two sample schemes possessed better stock selection ability during the whole study period.

25. Fund Managers of sample schemes did not acquire sufficient knowledge about macro economic factors influencing market movement for selecting the stocks.

Suggestions of the Study

On the basis of the findings of the study, the following suggestions are given to the Investor and Mutual Fund Companies and Regulators.

A) Suggestions to the Investors

1. Investors should first set their investment goal. After that they have to select the schemes and option according to their goals and returns earning needs.

2. As the Equity Mutual Fund Schemes do assume more risk than other Income and Balanced Schemes, investors, with appetite for risk, are advised to select Equity Mutual Funds Schemes for investment.

3. The study found that no one sample fund performed better under all measures during the study period. Hence investors must investigate the fund performance before they invest their money.

4. The year wise analysis of the present study shows that no one sample scheme earned either positive or negative value continuously during the entire study period. Hence investors are advised to select the schemes for investing based on the long term performance.

5. It is found that out of sample schemes, only 20% of sample schemes displayed better market timing ability of Fund Managers under conditional TM and HM Models. Hence investors are advised that they identify the schemes that have been introduced by Managers with market timing ability before they invest in that scheme.
B) Suggestions to the Mutual Fund Managers

6. Mutual Funds operations utilized the public money of investors. Hence Fund Managers have to use this public money in a proper way and distribute reasonable returns to investors.

7. Fund Managers must find the portfolio allocation under risk and returns proposition. After that they have to select the stocks for fund allocation.

8. In general, high level of risk provides high returns. Hence Equity Fund Managers are advised to select the correct stocks according to the expectations of investors.

9. It is true that the market movement (up and down) affects the Equity Mutual Fund Performance. Hence the Fund Manager should change their portfolio to suit the market conditions.

10. The present study indicates that majority of Mutual Fund Managers did not have sufficient market timing ability. Hence Fund Managers must cultivate the skill of spotting out the correct market timings to adjust with macro economic factors.

11. In the long term investment, there are many factors that affect the Fund performance. Hence Fund Managers may identify those factors and take correct decisions suitable to the different macro economic factors in the long term as well as short term.

12. The stock selection ability is the primary qualification of Fund Managers. They are advised to take more care while selecting the stocks according to the fund characteristics.

13. In the present scenario, many national and international factors affect the functions of Capital Market and Mutual Fund Institutions. Hence Fund Managers may study these factors before taking any decisions favourable to investors.
C) Suggestions to the Regulators

14. The Mutual Fund Companies are the financial intermediary between the public and the financial market. Regulators like SEBI and AMFI should watch every movement of the Mutual Fund Company and Fund performance and regulate these companies.

15. It is important that wherever Mutual Fund Companies offer new funds, Regulators should check the Fund allocations, nature of the Fund and stock selection provisions.

16. The Fund Management is a difficult task and it requires lot of skills, expertise and professional training. Therefore, it is suggested that Regulators check and study the educational qualifications and working experience of Directors, Trustees and Employees of Mutual Funds Companies.

17. SEBI should carefully study each Trustee of Mutual Funds and file regularly the details of his transactions in respect of dealing in securities.

18. The Mutual Fund Companies must provide proper communication regarding the investments and redemption by the AMC, Sponsor or any Associate of the Sponsor in any of the schemes and inter schemes investments.

19. AMFI is advised to define and maintain high ethical and professional standards in the Mutual Fund Industry to promote confidence of small investors.

Scope for Future Research

The present study is an attempt to mainly study the market timing ability and stock selection ability of Indian Mutual Fund Managers during the period 2002 to 2007. The scope for further research is summarized below.

1. The study with similar objectives could be made from time to time.

2. The study with similar objectives could be made with reference to other type of Mutual Fund Schemes like Income Mutual Fund Schemes, Different Sector Mutual Fund Schemes and Debt Mutual Fund Schemes.
3. The study may be conducted with comparative analysis of different types of Mutual Fund Schemes.

4. The study may be conducted with comparative analysis of Indian and foreign Mutual Funds performance.

5. The study may cover more economic factors like inflation rate, currency exchange rate and GDP for analysis.

6. Similar type of study may be attempted with increasing the study period with similar objectives.

7. The study may analyze the entry and exit load of Mutual Funds Schemes.

**Conclusion**

Indian Mutual Funds have emerged as strong financial intermediaries and they play a significant role in bringing stability into the financial system and efficiency in resource allocation. The present study discussed the different phases of development of Mutual Funds since the inception to the present scenario. It encompasses an analysis of the performance of selected sample Mutual Fund Schemes. The results of this study indicate that the performances of majority of the sample Equity Schemes were not significantly related to their market movements during the study period. Further, the study tested the correlation between systematic risk and total variability of sample Mutual Fund Schemes.

The present study presented empirical results pertaining to the market timing and stock selection abilities of Fund Managers under four models proposed by Treynor and Mazuy (conditional and unconditional models) and Henriksson and Merton (conditional and unconditional models). Majority of the sample Mutual Fund Schemes' Managers (Dividend) were not correct market timers under both unconditional TM and HM Models. Moreover, Fund Managers of more than fifty percent of sample Mutual Fund Schemes under Growth Option were not significant market timers under both unconditional TM and HM Models. However, the study found that few sample Schemes' Managers performed with correct market timing skills significantly under both conditional TM and HM Models.
It is found that the public information variables are important to be considered while evaluating fund stock selection and market timing ability. The overall results of this study indicate that the Indian Mutual Fund Managers did not have adequate information efficiency. Hence it is concluded that the Indian Mutual Fund Managers must improve their skills relating to internal activities as well as external market related information so as to promote the confidence among small investors who prefer to invest their savings in Mutual Fund. The growth of Indian Mutual Fund Industry mainly depends on Mutual Fund Managers whose skills in market timing and stock selection would improve the confidence of the investing public in Mutual Funds Schemes.