Chapter-8

Concluding observation
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If we want to invest our money in shares, then we should have complete knowledge about shares, its market (stock market where we will sell the securities), its terms and conditions. If we do not have adequate knowledge about it, we will not find success, and if we will go for purchase of bonds, debentures then the purchaser may get confused in the market. If we put or savings in banks or in post office then we may not find good return for our savings. Because of these problems Mutual Fund came in to existence. Expert at MFs know the working of the capital markets which is hard for an ordinary individual to know. In the MFs there are experts and specialists who have complete on behalf of the investors, the MFs purchase and sell securities with a view to provide high return to their clients.

If we track the history of mutual fund we can easily divide it into four distinct phases. The first phase was prior to 1987 when UTI was the only player in this field. UTI was established in 1963 by an act of parliament but was under RBI's control. 1978 UTI was dinked through RBI'S and the control of the trust went in the hands of IDBI. In the first phase the assets under the mutual fund industry were Rs6700crores. The second phase was between 1987 to 1993 when a lot of public sector banks, LIC& GIC made and entrain to this industry thus by the end of 1993 (AUM) under this industry was Rs. 47,004 crores. The third phase i.e. 1993 to 2003 saw twin developments, first the entry of private players into the field and second the regulation of mutual fund by SEBI. The AUM had jumped 121805 crores by the end of January 2003. The fourth phase 2003 onwards saw the act being repealed and UTI was bifurcated into two separate entities – one, which is a specified undertaking of UTI catering to US 64 scheme, existing assured schemes and other fixed income schemes of erstwhile UTI and other entity was called UTI mutual fund which was given the task of managing remaining scheme viz., equity and other schemes of the old UTI. The UTI mutual fund was formed according to
SEBI's norms and its formation satisfied the long ranging demand of the other mutual funds to bring UTI under the SEBI's regulations. The AUM of the industry as on June 30\textsuperscript{th}, 2003 was 1,04,762 crores. Thus the effect of split in UTI is clearly visible in terms of the fall in AUM of the mutual fund industry.

All mutual funds whether promoted by public sector or private sector entities including those promoted by foreign entities are governed by the same set of Regulations. There is no distinction in regulatory requirements for these mutual funds and all are subject to monitoring and inspections by SEBI. The risks associated with the schemes launched by the mutual funds sponsored by these entities are of similar type. It may be mentioned here that Unit Trust of India (UTI) is not registered with SEBI as a mutual fund (as on January 15, 2002).

From the comparative analysis provided above, it emerges that each investment alternative has its strengths and weakness. Some option seek to achieve superior return, but with correspondingly higher risk. Others provide safety (such as PPF), but at the expenses of liquidity and growth. Options such as bank deposits offer safety and liquidity but at the cost of return. Mutual funds seek to combine the advantages of investing in each of these alternatives while dispensing with the shortcomings. Clearly it is in the investor's interest to focus his investment on mutual funds.

While the mutual funds are one of the best option for the individual small investors. There are many mutual funds already available for the investor to choose from. It must be realized that the performance of different funds varies from time to time. Also, the Indian mutual fund sector has been in an evolving phase over the past five years during which time several investors have encountered some poorly performing funds, while others have been fortunate to be with good performers.
Mutual Fund in India serve as "Collective Investment Vehicles" i.e., they show an industry way in which can invest in capital markets. The objective is to collect the funds from the investors and then invest it in the securities permitted under the regulation i.e., a mutual fund acts as an intermediary between the investor & capital markets. Such kind of investment is deal for small investors who want in stock markets but cannot invest in most cf the scrip because of limited amount of capital at their disposal. Mutual Funds are also suitable for those investors who do not have sufficient knowledge of capital markets and by investing through a mutual fund they can make use of the knowledge of specialized people which the mutual funds usually employ. Mutual Funds became popular in India only in the early nineties during the bull run in the stock markets. But even today they are of no computation to their popularity in western Markets where resources mobilized by them have often overtaken the resources mobilized in the form of Bank Deposit. In US for instance, the number of Mutual Fund exceed the total number of listed securities.

RELATION BETWEEN RISK AND RETURN;

Risk – Risk is inherent in any investment. This risk may relate to less or delay in repayment of the principal capital or loss of non-payment of interest or variability or returns. While some investments are almost riskless like Government securities or bank deposits, other are more risky. There are differences in risk as between instrument.

Return – Yield or return differs from the nature of instruments, maturity period and the creditor or debtor nature of the instrument and a host of other factors. The most important factor influencing return is risk. Normally, the higher the risk, the higher is the return.

Choosing a Fund

The first step to investing in Mutual Fund is to define the objective of investing. You should clearly lay down the purpose for which you desire to
invest. There are several schemes tailor made to meet certain personal financial goals (children's education, marriage, retirement etc.) which can be availed of. You should define the tenure of investment and the risk appetite you have. Thereafter, you can select a fund type that best meets your needs i.e. income schemes, liquid schemes, tax saving schemes, equity schemes etc. Given the plethora of fund options available to you, you can then choose the particular fund that you are comfortable with. Investor can choose the fund on various criteria but primarily these can be the following:

- The track record of performance of schemes over the last few years managed by the fund.
- Quality of management and administration.
- Parentage of the Mutual Fund.
- Quality and adequacy of disclosures.
- Service levels.
- The price at which you can enter/exit (i.e. entry load/exit load) the scheme and its impact on overall return.
- The market price of the units of the scheme (where available) to see the discount/premium that the market assigns to the stated NAV of the scheme.
- Independent rating of the schemes, if available.

Investor could be investing in a mutual fund either at the initial stage when the mutual fund approaches the market through an offer document route or at a subsequent stage. If you choose to invest at the initial stage, the offer document would detail the schemes being offered and the manner of investing. The manner is usually similar to that of investing any public issue of any security (equity/debt).

Investors are planning to purchase the units subsequently, then the following choices exist:

1. A close ended scheme. If the desired units are of a close-ended scheme, then the investor would be able to purchase them at the stock
exchange where the MF has listed them. This purchase would resemble the purchase of an equity share wherein the investor would pay the quoted price of the unit as well as a brokerage for the purchase transaction. In the case of a close-ended scheme, the sale also is effected through the stock exchange mechanism and resembles the sale of equity share. The pricing for the transaction, as was mentioned earlier, is driven by the price the units quote. This is driven by the NAV (Net Asset Value) of the scheme. The price, however, may be either at a discount or premium to the NAV.

2. Purchasing a unit in an open-ended scheme is different as there is no exchange where these units are traded. Their price reflects the NAV of the scheme. The mutual fund in an open-ended scheme sells these units to the investor at the NAV (plus a sale/entry load).

3. Selling units in an open-ended scheme is similar to the way they are purchased. It is the mutual fund that buys back the units and at a price based on the NAV. The actual price is the NAV less the exit load. The exit load is similar in concept to the entry load.

LEVEL OF SATISFACTION YOU GET FROM INVESTMENT IN MF:

- 10% VERY HIGH
- 78% AVERAGE
- 12% VERY LOW
The satisfaction level is average to investment in MF. This is due to controlling measures taken by SEBI, which ensures healthy competition among various fund houses.

Concept of AUM before investing in ongoing

![Diagram showing 84% YES and 16% NO]

More than 80% Investor keep in mind AUM of Fund before investing in mutual fund. Since bigger AUM take care of liquidity position in bigger AUM fund manager have option to invest in flexible manner which ultimately give optimal return.