CHAPTER 1
INTRODUCTION

1.1 OVERVIEW

The Personal finance and particularly personal investing in tradable financial assets is complicated due to wide variety of it and risky, as returns are not assured or guaranteed. Personal investing needs understanding of basic investments like assets, how they operate etc., and the terms associated with them. When one thinks of investments, typically most investors would think of term deposits/fixed deposits with Banks, life insurance products, pension products like of PPF, Government bonds or investing in precious metals like gold and silver ornaments. Organized mutual funds offer interesting investment opportunity for retail investors; however as an investment option it is not so well known understood and penetrated among retail investors.

An Individual while planning their investments need to have a perspective and longer time horizon for it which generally helps in to have better annual returns and appreciations in their investments over a period of time. Good investments involve filtering suitable assets, clear understanding of investment avenues, cost associated with such investments, returns to be expected from such assets, variability in annual returns and level of risk involved for principle invested. In capital market relationship of risk and reward is linear. Good investing is generally the result of learning and understanding factors those affect these investments i.e. economical, political, global, technological etc over a period of time.

Often investors commit investments keeping in mind their future needs such as children higher education, social commitments, owning a house, retirement, medical, tax benefits, capital gains, travel and many such objectives due to which investor’s associates with their present commitment of funds in investable assets. Individual risk taking capacity, availability of investable funds, time horizon of investment, social status and social commitments, education, personal habits are generally affecting once investment style, choice of assets and subsequently performance of these investments.
Today investors can invest in debt securities, equity shares, mutual funds, derivatives, interest rates, currencies, commodities, overseas hybrid products like indices, exchange traded funds etc.\(^1\)

The Effective and efficient financial markets and intermediaries have helped in mobilising savings and also ensuring efficient allocation of these mobilised resources among various investments whereby the savers can get attractive returns on their investments.

The various investment options in mutual fund are described in the next section.

### 1.2 MUTUAL FUND AS AN INVESTMENT OPTION

The Investment process requires skill, knowledge, time and the ability to take risk. Investors can invest in direct equities of public limited companies listed on the stock exchanges or through mutual funds; both have their advantages and disadvantages. However, direct equity investing, though perceived as more dynamic by investors, is feasible only for those investors who are able to understand the working of equity markets and have the time to track it regularly. However investors who are not equally skilled and committed in terms of devoting time and energy towards their investments for such investors, the better way is to choose the indirect route by investing in mutual funds.

An Asset Management Company who offers various mutual funds schemes are a professionally managed trusts. These asset management companies pool savings of large number of small investors under these various schemes and invest this fund in financial tradable securities like equity shares of listed companies, government or corporate bonds, short term instruments, ETF of commodities, indices etc. Investment in a mutual fund scheme shares a common financial objective to investors. Investment done by fund manager is based on funds / schemes objective. For example a diversified equity fund invests money in large capitalisation companies listed on stock exchanges. These fund managers actively monitor and make purchases and sale of these securities on behalf of inventors know as active fund management or simply link investment to benchmark

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indices also know as passive investment style. These investments are well diversified offsetting large potential losses in a single security; generally a fund manager makes investment in twenty odd large liquid securities. These schemes are attractive for small investors as their small savings can be invested without incurring higher cost. Mutual funds are more suitable for beginners to capital markets as they generally cannot pay regular attention to the markets, lack of understanding and timing of these securities. Systematic and regular investment in mutual funds offers number of benefits to common investors like:

- Firstly, professional fund management approach to investment irrespective of the size of investment. For small investors mutual fund is effective because one can save time and expensive management fees.
- Secondly, as a investing rule fund managers invest corpus in a diverse way they buy securities across different companies falling in different sectors. This way of investing also helps small investors as they can gain from the principle of diversification and asset allocation.
- Thirdly, investments in mutual fund schemes are liquid, meaning investors can buy and sell their holding just like equities. In some specific cases sale of units of mutual fund may attract exit loads.
- Fourth, Investors can choose from the type of mutual fund scheme i.e. investor can invest in open end or close end scheme which offer flexibility to investors. Also investors can do Systematic Investment Plan in which case there is no need to invest lump sum amount at one time only. Monthly Systematic Investment Plan is popular among small investors.
- Fifth, retail investors pay a percentage fee for investing in mutual fund schemes which is much lower due to the scale of activity of these funds. Asset management companies pay lower transaction costs for transacting in securities market than individual retail investor.

2 National Stock Exchange (2013), ‘Mutual Funds a Beginners Module’ – Chapter I to VI.
• Finally, in the interest of small investors investing in mutual funds in Indian market, regulator Securities Exchange Board of India and also Association of Mutual Funds has mandated that every asset management company and its schemes must comply with set of rules. This ensure transparency and builds confidence among investors as they get regular updates, disclosures, fact sheets, holding statements, account statements etc. It is also mandated by regulator to provide all details online and also offline. No mutual fund scheme is allowed unless it is registered with SEBI\(^3\).

The functioning of mutual funds is discussed in the next section.

1.3 NEED FOR UNDERSTANDING MUTUAL FUNDS

The Investors need to understand mutual funds and risks associated with them i.e. mutual fund do not guarantee any fixed percentage of return every year nor it assure safety of capital in adverse market conditions. A funds return is affected by number of external and internal factors such as economical, political, technological, preference and choice of fund manager, sector specific etc. An investor investing in debt mutual fund has different degree of risk and return than a fund investing in equity shares. When we speak about risk it can be systematic or unsystematic also referred as diversifiable and non diversifiable risks to fund. For example changes in Government policies, Inflation, interest rates etc affect everyone systematically. Generally mutual fund performance is measured by the amount of returns it has earned over a period of time, mutual fund and its capacity to generate returns is subject to number of market factors investors should balance their risk taking ability and expectation of returns.

The good thing for retail investors is that, they enjoy the principle of diversification by investing in mutual fund but also it limits the returns which could have earned by investing in one or two securities.

There are various types of Mutual fund schemes available in the market. Investor can choose Mutual fund schemes while deciding on their investing needs. Figure 1.1 shows various types of Mutual fund Schemes.

\(^3\) Securities and Exchange Board of India Handbook (2013).
The rapid growths in asset management companies and fierce competition among them have provided investors variety of choice. By structure open ended scheme offer investor freedom to subscribe or purchase units directly from the issuer any time. These schemes do not have a specific maturity time. Any point of time investors can purchase or redeem units at the net asset value as available on a daily basis. These schemes are more liquid and are popular among investors. On the other hand close ended schemes have specific time to maturity generally they last for five to seven years. Such funds can be subscribed at the time of issue and can be redeemed at the time of maturity or investors can sell their holding on exchanges at the prevailing net asset value. Investors can invest and transact in these units just like common equity shares listed on exchange.

Investment in mutual fund can be done that suits investment objective like of growth schemes which invest more in growth sectors equities which offer capital appreciation over a period of time. They involve higher risk as these funds have larger exposure to equities. Income schemes as the name indicates these products are designed to offer regular income. These funds have higher exposure to debt instruments. They resemble a term deposit with slightly higher returns. These funds are more suitable for older age or retired investors. Balanced funds these scheme are balance of equity and debt i.e. investment in equities offer capital gains over a period of time and on other hand it ensures certain regular income. Depending upon the market and general economic conditions fund manager decide on the proportion of exposure he wants to have for equity and debt. Investors also have tax saving funds, which provide up to certain amount of investment tax rebates. Further index funds are those which invest and replicate
performance of benchmark index like Nifty, Sensex etc., and finally sector specific funds invests in a specific sector like infrastructure, technology, banking etc. Here fund managers invest in rising and promising sectors.

The growth of the mutual fund Industry will be discussed in the next section.

1.4 MUTUAL FUNDS- CHARACTERISTICS, GROWTH AND TREND

The (Securities and Exchange Board of India) SEBI (Mutual Funds) Regulations 1993, define Mutual Fund as follows “a fund established in the form of a trust by a sponsor to raise money by the trustees through the sale of units to the public under one or more schemes for investing in securities in accordance with these regulations”

Frank Reilly defines, Mutual Funds “as financial intermediaries which bring a wide variety of securities within the reach of the most modest investors”.

The International Organization of Securities Commission (IOSCO) in its Report on Investment Management of the Technical Committee defines Mutual fund as, "an open ended collective investment scheme that issues redeemable units and invests primarily in transferable securities or money market instruments". The distinct categories of collective investment vehicles in operation in India are namely: mutual funds (MFs); index funds; exchange traded funds; alternate investment funds (comprising private equity fund, venture capital fund, private investment in public equity (PIPE) fund, debt fund, infrastructure fund, real estate fund, social venture fund, small and medium enterprises fund and strategy fund), which mobilize resources from the market for investment purposes.

Investment Company Institute Global defines mutual funds as pooled investment products that are substantively regulated and that investing transferable securities (for example, publicly traded stocks and bonds) and money market instruments. Mutual funds are typically ‘open-end’ funds, which means their shares are redeemable and their assets may expand or contract daily in response to changes in investor demand.

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4 A CFA Institute Production (2012), Dr. Peter Shephard Executive Chairman Brain Dynamics Global.
8 Investment Company Institute Global defines mutual funds as pooled investment.
1.4.1 CHARACTERISTICS OF MUTUAL FUNDS

The specific features of Indian mutual fund schemes are discussed below:

- **Investment in mutual funds does not assure positive minimum returns:**

  Investments in mutual fund schemes do not offer its investors any minimum positive returns. Indian regulator keeps a close look at the schemes and do not allow in any way these funds to make any such comment to sale or promote investments. Performance of fund in terms of the percentage returns generated is purely subjected to market movements. On the other hand for fixed income or debt securities SEBI has formulated a policy that, mutual funds with a track record of five years will be allowed to offer fixed returns not exceeding one year period.

- **Variety of schemes with multiple options to choose:**

  Spurt in asset management companies and growing appetite for more customized financial products those matching individual investment needs are available in variety of schemes with multiple options to investors. One time investment products to monthly investment schemes, regular income to dividend reinvestment schemes, debt, equity, balanced, index linked, ETF, tax relief, insurance linked etc.

- **Investment outsourcing:**

  Investments through mutual funds provide the benefits of outsourcing i.e. low cost of management, expertise, professional investment approach, systematic investment, right timing and execution, continuous monitoring and update, performance review, analysis, rebalancing of investment etc and more can be addressed by investing in mutual fund than taking a direct approach to buy equity shares, debentures etc.

- **Liquidity:**

  Investors can convert their holdings into cash quickly as large numbers of these schemes are traded on exchanges today and also mutual funds also have a facility to pledge or mortgage at banks to obtain loan and can be transferred in favor of any individual, and
• Tax gains for early subscribers:
  
  Certain funds offer tax gains for early subscribers. Options like this are to encourage early subscription from investors. Tax planning schemes, child education plans, medical plans see such demand from investors for availing benefits that minimize tax liability.

  The Global scenario of the Mutual fund industry is discussed in the next section.

1.4.2 MUTUAL FUND SCENARIO GLOBALLY
  
  The optimism in the capital markets around the world post crisis years have fuelled growth in the asset management and assets under management in mutual fund industry. The long term mutual fund industry is growing worldwide over the past two decades, the global mutual fund industry has boomed. Assets in mutual funds have increased more than sevenfold, from US$4.0 trillion in 1993 to approximately US$ 29 trillion in 2013 as shown in the below Fig.1.2. This growth has been seen around the world. The Assets under mutual funds in US raised multi fold to approximately US$14 trillion. Europe to grow multifold almost to US$8.9 trillion. The Assets in the Asia expanded to a level of US$3 trillion. Finally, Canada and Latin America stood at over US$2 trillion\textsuperscript{10}.

![Figure 1.2: Worldwide Total Net Assets of Mutual Funds.]


Several factors help explain worldwide patterns in the growth in long term mutual fund assets, including:

- Greater household demand for well-diversified, professionally managed investment products offering access to capital markets.
- Strong and appropriate regulation of funds and financial markets.
- The availability of large common markets in which mutual funds can be purchased and sold.
- Expansion and availability of efficient capital markets across the globe.
- Superior returns on stocks and bonds (directly boosting fund assets and indirectly attracting flows).
- High or improving levels of economic development.
- Changing demographics and associated fiscal challenges, and
- The existence of a defined contribution (DC) plan system that allows participant-directed investments, including in mutual funds.\(^{11}\)

The foreign institutional investments in developing markets, global liquidity and free movement of capital have boomed developing markets. New money from different type of funds and range of institutions like pension funds, sovereign funds etc provide diversification of risk to such global investors. They get benefited from the higher growth rates in these developing economies and also help in absorbing slowdown or uncertainties in their domestic markets. In last decade developing economies like India, Brazil, Russia, China and many more have seen a combine fund flows of US$ 10 trillion\(^{12}\).

1.4.3 CAPITAL INFLOWS TO EMERGING MARKETS

Firstly, foreign direct investments made by corporations which lead to creation and control of physical assets in a country. The recent policy changes in countries like India: in one or the other way has made foreign direct investment allowed in all sectors of economy including 100 percent FDI in many areas. Figure 1.3 below shows the cumulative gross capital inflows to emerging markets.

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\(^{11}\) International Monetary Fund Global Financial Stability Report (2014), Volume 1, Pg no. 2-4.
Secondly, foreign institutional investments who invest in all sorts of paper assets traded in capital markets and specifically exchanges. They also include portfolio investments, promissory notes, depository receipts etc. These funds invest in securities of listed companies, government debt instruments, exchange traded funds, mutual funds etc.

![Figure 1.3: Cumulative Gross Capital Inflows to Emerging Markets](image)


Thirdly, the growing popularity of index funds i.e. passive fund management are fevered by investors due to a balance risk reward ratio offered by them. Globally investors holding mutual funds, at least 31 percent have invested in one or more equity linked index funds. As of 2014, 382 passive index funds have invested a total of US$2.1 trillion. Additional of US$148 billion in new cash have been invested in these funds by the end of 2014. Domestic equities have accounted for the majority of new investment in index funds, 26 percent went to funds tied to world stock indexes, and another 33 percent was invested in funds tied to bond or hybrid indexes, such as those commonly used to benchmark target date mutual fund performance. Net new cash flow into index domestic equity mutual funds grew from US$52 billion in 2013 to US$61 billion in 2014, a 17 percent increase.13

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13International Monetary Fund Global Financial Stability Report (2014), Volume 1, Pg no. 16-17.
Fourth, the development of alternative strategy funds like equity, hybrid, and bond funds offering alternative strategies have attracted considerable inflows in recent years as shown in Fig.1.4.

In many ways, the 2008 crisis evoked a desire among investors to broaden their portfolios and lower the correlation of their investments with the market. Fund managers have responded by creating strategies those compliment buy and hold strategy of fund. Many of these funds also provide investors a means of hedging against declines in various market sectors. Trading methods like pair trades involve hedging purchases using options and selling securities and sectors those are overpriced14.

Fifth, exchange traded funds are those where investors are seeking to gain or shed exposure to broad market indexes, particular sectors or geographical regions, or specific rules-based investment strategies. They find that ETF’s are a convenient, cost-effective tool to achieve these objectives. In last ten years Exchange Traded Funds have gained popularity among investors due to its simplicity and ability to mirror reflect changes in price as in underlying.

A sharp rise witnessed in asset under management and mutual funds has seen moderation and slowdown in the past couple of years. The liquidity crunch world over consequent to the turmoil in the global financial markets had adverse impact on the

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resource mobilization of the industry. Moreover, given the uncertain conditions prevailing in the individual domestic stock markets, the mutual funds witnessed severe redemption pressures from the institutions, corporate sector and individual investors, which in turn called for the intervention by the central bankers. The Mutual fund scenario in India is discussed in the next section.

1.4.4 MUTUAL FUND SCENARIO IN INDIA

In recent years, growth in India for mutual funds is one of the fastest, posting a compounded annual growth rate of around 17.6 percent during the five year period of 2004-08 against the average of 4 percent during the same period around the world\footnote{D and B Banking and Financial Sector Report India (2011) www.dnbindia.com.}. United States, France and England, on the other hand, have witnessed a lower growth. In India rapid growth of the industry can largely be attributed to the rising personal income, growing risk appetite and stronger distribution network of these companies. Today, for retail and small investors mutual fund has become one of the preferred investments as it provides to invest in stocks of different securities also it is professionally managed and less expensive. Further, buoyancy in the domestic stock markets in recent years has fuelled growth in India.

Beginning with Unit Trust of India, today in India number of financial companies like banks, private and foreign non banking financial services companies have entered the market with a variety of new funds and schemes. Today, alone there are over forty private mutual funds with the total number of schemes amounting to over 1300. The major private along with their foreign partners include ICICI Prudential, Birla Sun Life, HDFC, Tata Mutual fund, Reliance Mutual Fund and Kotak Mutual fund etc to name a few. Moreover, the industry has also endeavoured to tap overseas markets, offering a slew of products to overseas Indian investors\footnote{D and B Banking and Financial Sector Report India (2011) www.dnbindia.com.}.

The share of mutual fund penetration in India when compared to global industry has remained considerably low as shown in the Fig.1.5. It accounts for just 0.3 percent of total assets managed globally, which is lesser than other emerging countries such as China 1.5 percent and Brazil 2.5 percent\footnote{D and B Banking and Financial Sector Report India (2011) www.dnbindia.com.}. 
In 1963, Government of India formed Unit trust of India along with Reserve Bank of India made a beginning of industry in India. Following timeline highlight a brief insight of mutual funds in India.

Gucrley and Shaw (1955) view the role of financial institutions as one which helps in realizing the opportunities for savings and real investment in an economy. The healthy growth of savings in India has been boosted by the household sector which has contributed a substantially high percentage to total domestic savings and also institutional development in the financial market influenced the savings patterns, particularly in the household sector. Financial intermediaries assist the transfer of savings to the real sector of the economy through the formation of financial assets. With the growth in capital markets and falling interest rates on bank deposits there is a change in savings structures in India. Capital market instruments like shares of listed companies on stock exchanges, company debentures, government bonds, mutual funds, insurance etc have seen growing preference and importance in household financial assets. Equity oriented schemes are

Figure: 1.5: Growth in Assets under management of selected Countries.
Source – ICI Fact Book, figures in percentage.

17 Securities and Exchange Board of India website www.sebi.gov.in.
now 32.3 percent of the industries assets, up from 29.2 percent in November 2014 as shown in Fig.1.6. The proportionate share of debt oriented schemes is 44.6 percent of industry assets in November 2015, marginally up from 44.5 percent in November 2014²⁰.

The retail investors hold equity oriented schemes while institutions hold liquid and debt schemes. 59 percent of small investor holds in equity schemes. 88 percent of institutions hold in liquid / money market schemes and debt schemes²¹.

The Equity mutual funds are increasingly gaining acceptance as a financial saving instrument by retail investors. This growing acceptance by the investors is relative to the performance of funds. Funds have done well and have created wealth over the period of time to the investors. Retail investment products like systematic investment plans and

equity linked saving schemes have seen substantial growth in fund inflows and increased time period of investment\textsuperscript{22}.

The growth in recent years is related to number of factors like higher disposable income, ease of investment, tax linked investment options and also investor awareness programs.

A range of factors affect investors selection of mutual fund and asset management company like past performance of the scheme, fund manager, quality of research, total corpus of the fund, objectives of the scheme, reputation and general perception of company, service provided, number of schemes available, minimum investment required, collaboration with foreign companies, redemption options etc apart from these factors risk perception, liquidity of scheme, transaction costs, scheme returns, tax savings and procedural understanding plays important role in making a selection.

The past performance of fund in terms of returns and risk are the two most significant objective factors that affect choice of fund. The role of vagueness and deficient in financial knowledge about the return over investments avenues among the investors are the important component of any investment. The extend of the investors aptitude to stand these risk of return is said as risk tolerance\textsuperscript{23}.

The Past performance of funds in India has been phenomenal i.e. mutual fund industry in India has grown significantly attracting and adding newer and more mature class of investors and also assets under management. SEBI and capital market developments in India have made mutual fund investment an important part of savings for investors.

The tax benefits allowed on mutual fund schemes i.e. investment made in Equity Linked Saving Scheme (ELSS) is qualified for tax deductions u/s 80C of the IT Act.

Mutual fund in India began with traditional schemes like equity oriented fund, debt fund and balanced fund has significantly expanded its product portfolio. Today, the

\textsuperscript{22} Alpesh Shah and others – Equity Mutual Funds (2010) BCG and CAMS annual report pg. No. 10.

\textsuperscript{23} Rajesh Chakrabarti and others - Penetration of Mutual Funds in India (2014) ,SEBI Development Research Group ,pg. No. 22-23.
industry has introduced an array of products such as short term liquid and money market funds, sector specific funds like banking, IT, pharma,index funds like Nifty, mid cap etc gilt funds, capital protection schemes, special category funds like sariha, insurance linked funds, exchange traded funds, etc. It also has introduced Gold ETF fund in 2007 with an aim to relate gold price movement. Also schemes invest and track performance of global indices and foreign securities. The factors which influences investment decision making is discussed in the next section.

1.5 INVESTMENT DECISION MAKING

A range of factors affect investors selection of mutual fund and asset management company like past performance of the scheme, fund manager, quality of research, total corpus of the fund, objectives of the scheme, reputation and general perception of company, service provided, number of schemes available, minimum investment required, collaboration with foreign companies, redemption options etc., apart from these factors risk perception, liquidity of scheme, transaction costs, scheme returns, tax savings and procedural understanding plays important role in making a selection.

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The tax benefits allowed on mutual fund schemes have also attracted investors to invest in mutual funds.
How one invests makes a big difference in investor wealth. Investor wealth creation necessarily does not base on higher risk taking ability. But is based on cognitive process. “Cognition” is a general term covering all modes of knowing. Investment decisions small or big are affected by a number of factors like economical, social, life cycle; physiological etc

The decisions based on economical, social and life cycle varies from place to place and also based on surrounding environment. Psychological effect purely depends upon the attitude of the investor. Here emotional decisions of the human brain plays a vital role in decision making process which has a series of connections combining together to get the final result. According to brain theory, left brain handles linear, logical processing while the right brain is more emotional, intuitive, and holistic. In case of investment, left brain is more important to double check the logic and evaluates the risks of investment by protecting the investor from bad decisions. But as per study, if one part of the decision making process is damaged, ultimately the other part also slowly responded and stops the brain’s decision making abilities. Hence the two hemispheres are important for decision making.

This raised many questions like:

- How do investors decide to invest in mutual funds?
- Is the decision to invest related to the brain dominance of an individual?
- In making a decision which part of the brain influences more?

The Studies on right brain or left brain dominance in making investment decisions shows that investors are making quick decisions as one gets an idea even if the circumstances are not in favour. It is also seen that investors who has right brain dominance are good in making such decisions. Much emphasis on analysis of factors affecting investment leads to missing on the timing of such investments. Often right brain investors decide on investments without much of analysis and thinking. Daniel Kahneman explains in his book “Thinking, Fast and Slow” decision are reactive. It does not require heavy thinking. Kahneman states, investors overestimate their understanding
and underestimate frequency of events affecting investments. On the other hand left brain investors are logical, reasoning, linear and analytical these types of investors wait and research the pertinent facts before making investment. Some of the results of Mutual fund Industry publications is discussed in the next section.

1.6 SUMMARY OF RESULTS OF MUTUAL FUND INDUSTRY PUBLICATIONS

The Study done by Rajesh Chakrabarti and others under title, Penetration of Mutual Funds in India has made following observation about industry in India. The growth in industry is one of the fastest and is most aggressive part of the financial service sector. As of August 2015, the total assets are over 79600 cr. However, lack of overall participation in India has led to slowdown in growth of asset management companies in India. Some of the factors for less penetration are listed below:

a. Low demand of mutual funds from the public outside the major cities. This low demand in turn could be caused by low levels of financial literacy, cultural attitudes towards savings and investments etc.

b. Low supply of mutual funds from asset management companies outside the major cities. The low supply could be due to perceived lack of demand from the general retail investor or due to lack of available manpower in these areas.

Price waters coppers report on mutual funds in India this report highlights the following point the securities and exchange board of India (SEBI) has framed a long term policy for mutual funds. The policy covers aspects including enhancing the reach of mutual fund products, promoting financial inclusion, tax treatment, obligation of various stakeholders, increasing transparency, etc. Its recommendations have been separated into non-tax proposals and tax related proposals. Most of the non-tax proposals have been notified by the SEBI by way of circulars or notifications. The salient features of the policy are as follows:

24 Rajesh Chakrabarti and others - Penetration of Mutual Funds in India (2014) SEBI Development Research Group , pg. No. 24-25.
1.6.1 NON TAX INCENTIVE AMENDMENTS AND PROPOSALS

The SEBI has recently notified regulations enhancing the net worth requirement of asset management companies from rupees 100 million to rupees 500 million\textsuperscript{30}.

Disclosures of Assets under Management

To improve transparency and increase the quality of the disclosures for investors, mutual funds are required to release on their websites, on a monthly basis, different types of assets\textsuperscript{31}.

1.6.2 FINANCIAL INCLUSION

To improve investor awareness and education, all AMC’s should mandatorily make printed literature in regional languages. Introduce investor awareness campaign in regional languages, both in print and electronic media\textsuperscript{32}. In order to achieve participation from all parts of the country in the mutual fund industry, distribution is allowed through public sector banks and online distribution and also investments by employees provident fund organization in equities and mutual funds. Tax incentive proposals long term product such as a mutual fund linked retirement plan will have an additional tax incentive of rupees 50,000 under 80C of Income tax Act, 1961\textsuperscript{25}. The barriers and opportunities in Mutual fund industry in India are described in the next section.

1.7 BARRIERS AND OPPORTUNITIES

Since its beginning mutual fund industry has come a long way but there are certain areas of concerns which need to be addressed in order to grow and gain large retail investors participation. Low levels of customer awareness, unwillingness to undertake even minimal risk by retail small investors, limited innovation in product offerings to small investors, minimum participation of public sector network for distribution of funds schemes like from post office, multiple regulatory frameworks, and competition from certain products like Government and semi government bonds, post office schemes, term deposits for senior citizens, national saving certificates, term

\textsuperscript{25} Alpesh Shah and others – Equity Mutual Funds (2010), BCG and CAMS annual report pg. No. 12.
deposits with banks etc discourages retail investors from investing in mutual funds. As noted earlier, low levels of customer awareness and their unwillingness to take risk and perception of mutual funds as saving option is the biggest challenge in channelizing household’s savings into mutual funds. A majority of investors in Tier 2 and Tier 3 cities as well as metros lack understanding of when choosing mutual fund products over investing direct in stock market. As a result, they are generally unwilling to undertake even minimal risk to their savings. On one hand recent volatile performance of capital market and on other hand number of fixed income products and schemes make mutual fund investment lower priority among small investors.

Also mutual funds in India have historically raised funds large investors segment that accounts for 63 percent share in AUM as on March 2008\textsuperscript{26}. This can primarily be attributed to the tax benefits enjoyed by such investing in money market funds by corporate. Besides, raising funds from retail investors require a significant distribution capability. In fact, the retail investors residing in Tier 2 and 3 towns, though aware and willing limited access to suitable distribution channels and investor servicing limits such investments\textsuperscript{27}. Presently all AMC’s are looking aggressively at retail investors and also they are reducing their dependence on institutional investors.

A variety of range in products is available to investors today be a institutional or retail investor but lack of innovation and new product offer has failed to attract new retail investors.

Green energy funds, fund of funds, Multi fund manager, and hybrid funds are popular globally but have yet to take off in India due to the slow structural changes and lack of investor appetite for such offerings\textsuperscript{28}.

\textsuperscript{26} PWC and CII report on Indian mutual fund industry challenging the status quo, setting the growth path (2014).
\textsuperscript{27} An Empirical Study of investor’s behavior in Indian Mutual fund Industry (2014) by Dr Preeti Sharma pg no.6.
\textsuperscript{28} Rajesh Chakrabarti and others – Penetration of Mutual Funds in India (2014) SEBI Development Research Group, Pg.No .32 -33.
1.8 THE PRESENT STUDY

In this backdrop, when investment options in various sectors are large and the differences in the returns on funds differ it is important to analyze returns of these funds so that a rationale is built for investment in mutual funds. There is ambiguity and ignorance among investors about the very principle of mutual funds, its returns and the risk involved. This calls for a study to analyze the performance of mutual funds. Also it is necessary to examine, whether the investments in these funds is driven by the cognitive behavior of investors or not? If it is driven by cognitive behavior then the whole lot of analysis on performance of mutual funds finds meaning. Every individual takes decisions based on his or her brain dominance and decisions are likely to get affected by brain dominance of individuals. Hence, there is a need to understand if brain dominance has any influence on the decision making of investors to invest on mutual funds. The organization of the thesis is described in the next section.

1.9 ORGANISATION OF THE THESIS

The Thesis is divided into two components:

The First Component of the thesis deals with analyzing the performance of selected Indian Open ended mutual fund schemes. For the purpose of the analysis, 15 large cap and 15 Mid and Small cap funds of various AMC’s have been chosen.

The Second component of the research deals with the study of attitude of investors towards equity mutual funds using left-right brain concept.

- Chapter 1 - Introduction: The Introductory chapter presents the overview of the study and the characteristics, growth and trend of Mutual funds are presented.

- Chapter 2 - Literature Review: This chapter covers the previous research relating to performance of the equity mutual funds and Attitude of Investor’s towards equity mutual funds literature as main theories. In this chapter the work has been carried out in order to identify the gap.

- Chapter 3 - Research Methodology: This chapter covers about the scope and rationale of the study, objectives, hypothesis, sampling, and tools for data collection.

- Chapter 4 - The Analysis of performance of Mutual Funds: This chapter covers analysis of performance of 15 large cap and 15 mid and small cap funds.
• Chapter 5- The Analysis of Investor’s attitude towards equity mutual fund investments using left – right brain concept is carried out in the present chapter.
• Chapter 6 - In this chapter respondents data is analysed. It comprises of respondents’ profile, influence of brain dominance and factors contributing to decision making on mutual funds.
• Chapter 7- This chapter discusses findings, conclusions and recommendations.

1.10 SUMMARY OF THE CHAPTER

In the present chapter, we studied about various financial products available in the market for investments. The benefits of investing the investors hard earned money in various equity mutual fund schemes compared to other financial products has been understood. The major difference between investing in direct equity and through equity mutual fund schemes is explained.

The risk and return associated with the equity mutual fund schemes in India is explained. The various types of Mutual fund schemes was clearly elaborated and understood. The characteristics, growth and trend of Indian Mutual funds were presented. We understood the specific features of Indian Mutual fund schemes. Then we came to know the barriers and opportunities that exist in the mutual fund industry as an investor and as an AMC. Then, finally we understood the significance and importance of the present study. Since there are various schemes available in the market, investors especially small investors are finding it very difficult to understand the operations of these mutual fund schemes.

In the present study, analysis of the performance of open ended growth mutual fund schemes is done which will be the first component of the study. And in the second component of the research, the researcher tries to find the attitude of investors using Left-Right brain analysis. The organization of the thesis with various Chapters and area of study is also listed in the present chapter.

In the next chapter we discuss regarding the various research carried out in these two components discussed above. The next chapter also focuses on the studies, approach and outcome of the various researches works and identifies the gap. After carefully understanding the gap of the previous research, we frame the objectives for the present research work.