

Role of Mutual Funds in Today's Globalised Economy

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ABSTRACT

“Mutual Funds were created to make investing easy, so consumers wouldn't have to be burdened with picking individual stocks”. Mutual funds is one of the best financial investment scheme where the common investor can take part in the Indian Capital Market irrespective of the amount with professional fund management. It pools the funds from various investors and diverse those funds into various sectors for the guaranteed payback amount to the investors. Mutual funds provides less risk than of investing directly in the shares and hence it is considered as safer option for the investment. One of the main factors that drive through investing in mutual funds is the guaranteed amount of principle. Thus, mutual funds plays a vital role in development of the chosen sectors along with the economic development.

Keywords: Mutual funds, Investment, securities, risk and return, portfolio.

INTRODUCTION

Mutual fund is an investment vehicle that are managed by experts where the capital is raised by selling of various securities to investors with the technique of pooling of funds and diverse it to various sectors. **Securities and Exchange Board of India (SEBI)**, governs the Mutual Fund system. According to SEBI Regulations 1996, protection of the investors should be the primary aim of Mutual Funds. The Government of India and the Reserve Bank of India formed Mutual Fund industry in India in 1963 with the formation of Unit Trust of India (UTI). The first non-UTI Mutual fund in India viz., SBI mutual fund was started in the 1987. Mutual Funds is a trust which invests money in equities, money market instruments, bonds and other securities (collective investments) by collecting money through the number of investors who have common investment objectives. The primary element of any investment is to reap high returns with minimum risk and thus mutual funds facilitates the options for the investors. Data of March 2018 reveals, Out of 29 crores PAN card holders in India, approximately 7% of them i.e., 2 crore investors have folios approximating 6.60 crores (3.3 on an average). Thus, this study focuses on working and different types of mutual funds and individual perception towards it.

REVIEW OF LITERATURE

According to Madhusudhan V Jambodekar (1996) in his research stated the direction of the mutual funds in investors and to analyse the components that investment decision in mutual funds. The study specifies that the open ended mutual funds are more favourable than the other types of mutual funds. He also emphasized on the income schemes and open ended schemes than of closed ended mutual funds.

According to Anjan Chakarabati and Harsha Rungta (2000) studies the importance of brand in achieving the competency of asset management companies. The investors compares the brand image of one sector to another in order to gain the utmost advantage in return on investment. Further he also specifies the sustainability of the companies also become the critical factor in building up of goodwill. The AMC must ensure proper management of the funds and diverse the funds to the branded sectors which has trust of getting benefits from the investments.

According to Shanmugham (2000) in his survey specifies the individual investors invest with an objective of the sources of information they get. It also studies the investor's investment decision making are influenced by an economic, social and psychological factors.

SCOPE OF THE STUDY

The study covers the working of mutual funds in today's globalized economy which is one of the most likely investments by the investors. It studies the individual perception towards mutual funds which is one of the vital element in investing. It also specifies the various types of mutual funds. The study is concentrated mainly in Bangalore city.

STATEMENT OF THE PROBLEM

Many products of the mutual funds aims at providing various benefits to the investors. The individuals are in the stage of dilemma in respect of selection of mutual funds. Hence, this study aims at analysing the individual perception towards the mutual funds along with the working and different types of mutual funds.

OBJECTIVES OF THE STUDY

- To understand the working of mutual funds
- To know the various types of mutual funds
- To study the individual perception towards mutual funds

RESEARCH METHODOLOGY

Data collection

The data are collected through primary as well as secondary data. The data of first two objectives are collected from secondary data and third objective is collected from primary data.

The primary data are collected through structured questionnaires and mock interviews with the respondents. The secondary data are collected through the books and websites of SEBI, Mutual funds, etc.

Sample size

50 respondents are interviewed during the study.

Sampling technique

The data are analysed through percentage analysis, frequency analysis using Graphs, pie charts etc.

LIMITATION OF THE STUDY

- The study is restricted to Bangalore city.
- All the information provided by the respondents may not be true.
- Opinion of investors may vary from one period to another period.
- Time constraint is one of the major limitation.
- Sample size is restricted to 50 respondents only. Hence, it may not represent the whole market.

DATA ANALYSIS AND INTERPRETATION:

Mutual Funds is a trust which invests money in equities, money market instruments, bonds and other securities (collective investments) by collecting money through the number of investors who have common investment objectives. A portion of the holdings of the fund is owned by each investors. Based on the money invested from each investors, the generated income is distributed proportionately among these investors through the collective investments after deducting certain expenses calculated by a scheme's Net Asset Value (NAV).

Objective 1- To understand the working of mutual fund

Mutual funds reduces the risk to the investor by providing different types of investments and the risk of individual securities chosen are mitigated. The investors does not require to perform risky tasks of picking individual stocks facilitating an option of choosing the type of funds suiting their investment or ideas on it.

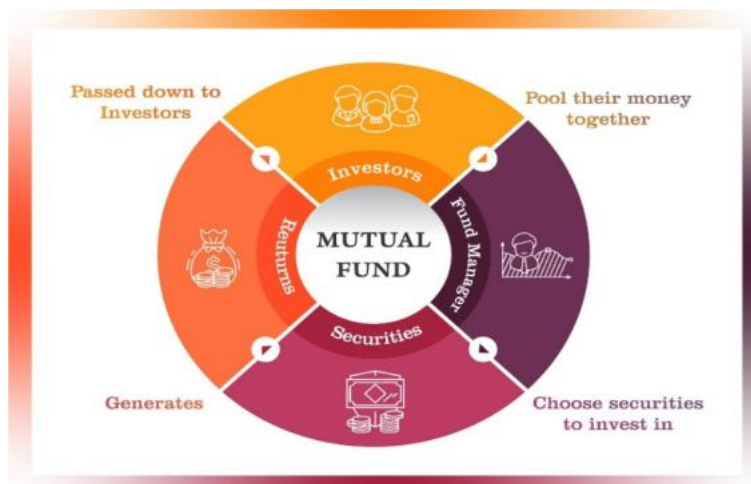
Mutual funds pool up money from individual along with the money of other investors and invest it in portfolio of other assets (Stocks, Bonds), facilitating the individual to invest in Portfolios even which he wouldn't be able to afford individually because the individual is investing along with other investors.

It allows the investors to pick one fund, containing different stocks, unlike investing it into an individual stocks bearing high risks. They carry on the monitoring prospectuses, or industry news are also collected and planned accordingly.

Picking up the investments in portfolio, the Fund Manager typically manages the Mutual funds. This facilitates the beginner investors not having experience to invest more placing their faith in expert of Mutual fund world. Fund Manager plays an important role in managing the investors' money and their jobs depend

on how well the funds perform. Hence, Mutual Funds are also sometimes termed as “Actively Managed Funds.” Fund manager also receives bonuses on the good job performed.

- The invested money is managed by Fund managers as mentioned. Fund managers are also known as Asset Management Company (AMC). They are appointed to understand how market and money works. The Trustees of mutual funds ensures the investors’ interest through monitoring the AMC’s activity.
- Considering the Equity Funds investment, the AMCs reduces the risk of loss through investing in many industries, this ensures that even if one stock does not perform well the other stock which has performed well, covers the loss of stock which has not performed well.
- Considering the debt investments, AMCs invest in various securities to avoid the risk.
- Growth of equity and stability of debt is ensured when Debt funds are deemed with Equity funds in various industries. This factor make Mutual funds less risky than an investor investing directly into an Equity funds or Debt funds and making it more beneficial.
- Mutual funds make payments in two ways:
 1. The Fund Manager makes the payment through **distribution** of Dividends to Fund owners if a mutual funds contains an asset that pays dividends.
 2. Investors accrue capital gains money when they sell their mutual fund for more than that of what they have initially paid.
- AMCs after investing provide the investors units which represents the money invested in the mutual fund which is termed as Net Asset Value (NAV). This units are easily redeemable, NAV refers to the market price of all the stocks and bonds of the scheme invested divided by total number of units. The investors have options of investment through Systematic Investment Plan (SIP) or Lump sum Manner. Making mutual fund accessible.
- Mutual funds were created to make investing easy, so consumers wouldn’t have to be burdened with picking individual stocks.



(Working of Mutual Funds)

Objective 2- To know the various types of mutual funds

Mutual funds are regarded as less risky funds where the guarantee of principle amount is returned to the investors after the specific period. One must have the knowledge of mutual funds and its various products before going to it. Hence, it is an important element to study the various types of mutual funds.

Types of Mutual Funds

Funds Based on maturity period

1. Open ended funds

Facilitating the liquidity and flexibility of time on a continuous basis, the Investors are allowed to subscribe or redeem units as per the prevailing Net Asset Value (NAV).

2. Close ended funds

At the time of initial launch of these funds the investors can opt to subscribe, which come with a fixed maturity date like 3-6 years, listed on the Stock exchange.

3. Interval Funds

Though they operate mainly as close ended funds, these are the hybrid of open and close ended funds as they trade both on stock exchanges and are open for redemption at predetermined intervals at the prevailing NAV

Funds based on Investment objective

1. Equity/Growth Funds

In this type of Fund the investment of money is in stocks. These funds with their objective of long-term Capital growth invest at least 65% of their corpus in equity and equity-related share securities. These funds focus on one or more sectors having a high risk of appetite.

2. Debt/Income funds

In this type of Fund the investment of money is on Bonds, Corporate debentures, Government securities and Money market instruments which are considered as fixed income securities for about 65%. This funds are less volatile compared to Equity funds.

3. Balanced Funds

In this type of Fund the investment of money is at 60% in equity and 40% in Debt instruments (bonds and debentures). It aims at providing stability of returns and appreciation of capital.

4. Money market/Liquid Funds

In this type of fund the investment of money is on Treasury bills, Certificates of Deposits and commercial paper which are termed to be safer short term instruments, for less than 91 days. It facilitates a moderate income with capital reservation and liquidity suiting most of the corporate or individual investors who wish moderate returns on their surplus funds.

5. Gilt Funds

In this type of fund the investment of money is exclusively associated with the government securities without carrying a credit risk. But the risk is related with the with the rise or fall in the interest rates.

Other Funds

1. Tax saving (Equity linked saving schemes/ELSS)

This funds largely suit investors who invests primarily in the equities with a higher risk of appetite for capital appreciation, mainly designed for capital growth generation. This funds comes with 3 years of lock-in period, spreading over medium to long-term.

2. Index funds

This funds' performance is attached to an index in particular, such as BSE SENSEX or S&P CNX NIFTY. In the identified index the portfolio comprises stocks and the weightage is assigned to each stock.

3. Sector-specific funds

This funds mainly invests on a specific industry or a specific sector such as Pharmaceuticals, IT, FMCG etc. based on the performance of these sectors the funds returns are directed. This facilitates an investor for funds diversification across multiple companies. This funds are riskier as the performance is directly linked to overall sectors.

According to the 'Association of Mutual Funds of India', Equity mutual funds stock plans received Rs.9150 crores in August 2019 an increase of approximately 1000 crores since March 2019, even though the Nation's stocks suffered the worst since 2016.

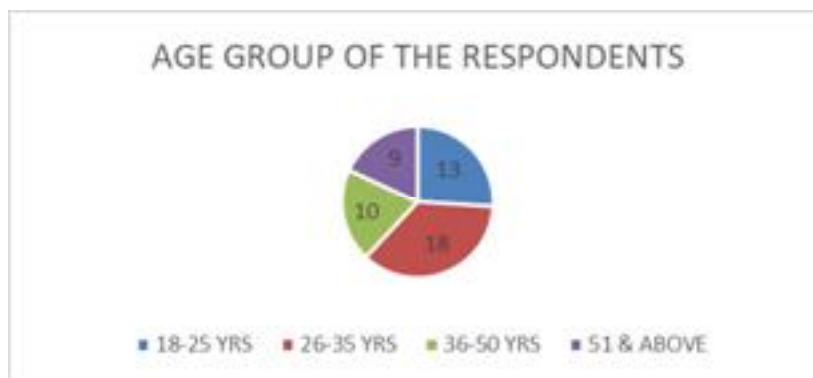
Objective 3- To study the individual perception towards mutual funds

Individual perception is one of the critical element in selection and deciding the investment styles.



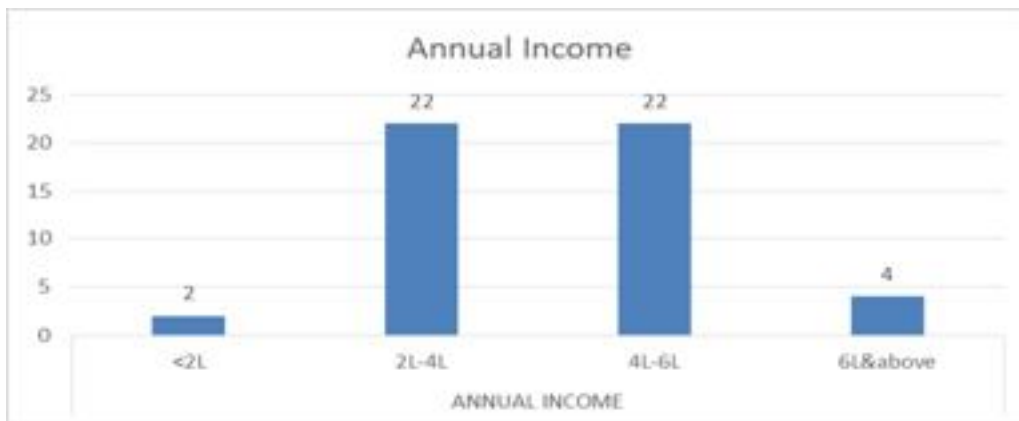
Graph1: Gender (Source: Primary Data)

For the purpose of the study, the sample is taken as 50 out of which 35 respondents are male and 15 respondents are female.



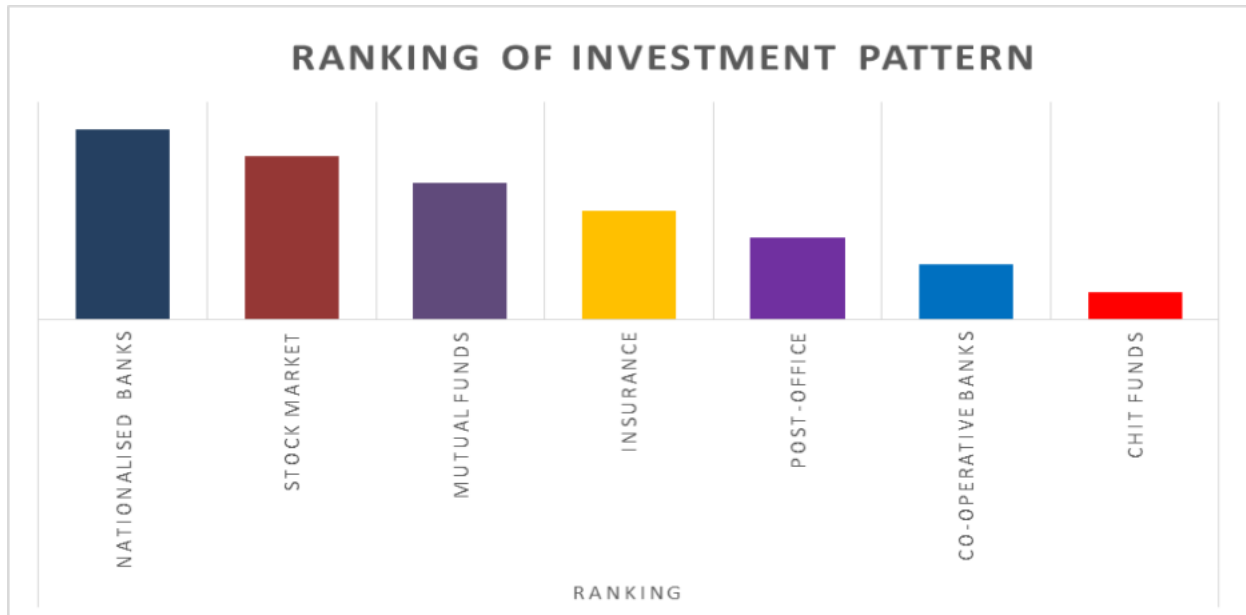
Graph2: Age group of the respondents (Source: Primary Data)

Majority of the respondents i.e. 18 respondents are at the age of 26 to 35 years. 13 respondents are at the age of 18 to 25 years. 10 respondents are at the age of 36 to 50 years. 9 respondents are at the age exceeding 51 years.



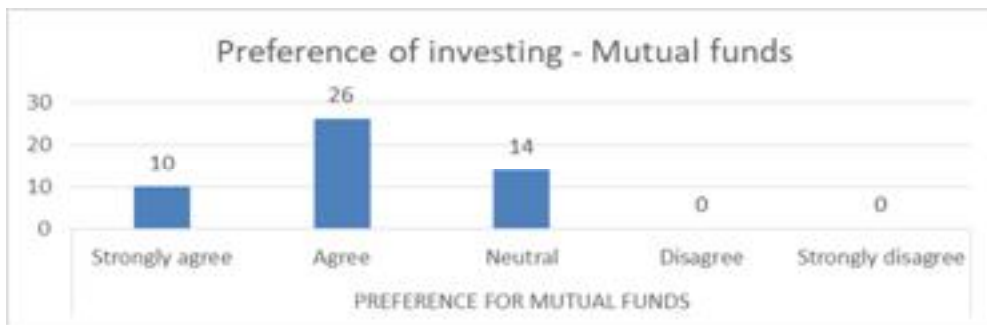
Graph3: Annual income (Source: Primary Data)

From the study, it has been revealed that out of 50 samples, 22 falls under the income level 4L to 6L, 22 falls under 2L to 4L, 4 falls under 6L and above and 2 falls within 2L.



Graph 4: Ranking of investment pattern (Source: Primary Data)

From the research conducted, it is most ranked investment pattern by the investors is investing in nationalised banks, stock market, mutual funds, insurance, post office, co-operative banks and chit funds.



Graph 5: Preference of investing in Mutual Funds (Source: Primary data)

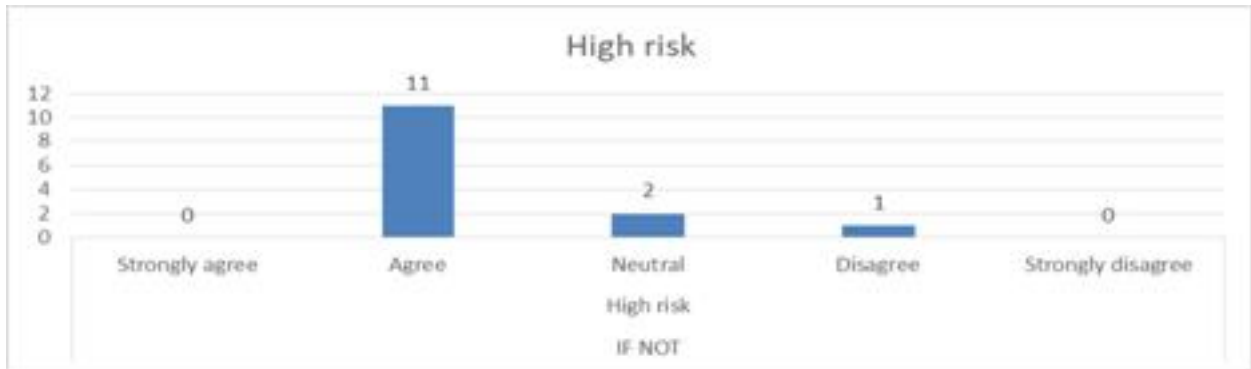
Out of 50 respondents, 26 of them have agreed to invest in mutual funds, 10 have strongly agreed and 14 have neutral decisions for the same.



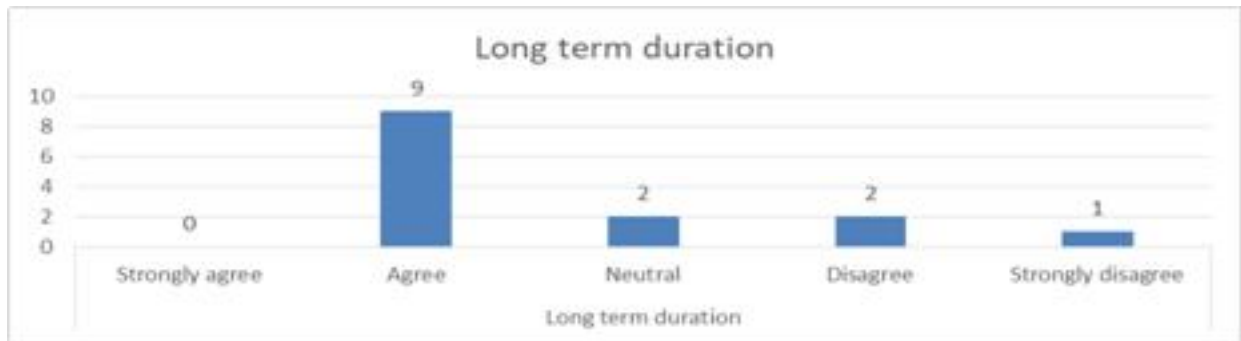
Graph 6: Frequency of trading (Source: Primary data)

Out of 36 respondents who have agreed for investing in mutual funds, majority preferred to trade with the timeline of 6 to 12 months. 14 of them trade with the timeline of 1 to 6 months. 2 of them prefer to trade with the duration of 1 month and 4 of them trade rarely i.e. more than 1 year.

There are enormous reasons due to which investors do not trade in mutual funds. Some of them have listed below in order to know the exact mindset of the investors when entering to the contract of mutual funds.



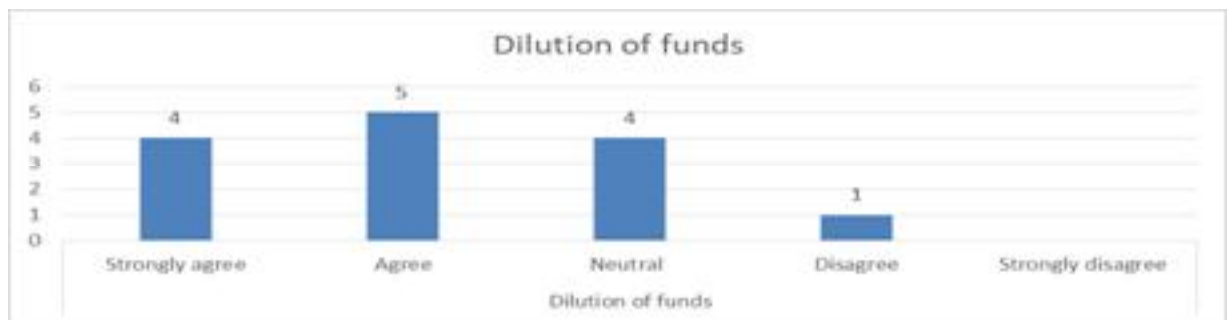
Graph 7: High risk (Source: Primary data)



Graph 8: Long-term duration (Source: Primary data)



Graph 9: Fees and expenses (Source: Primary data)



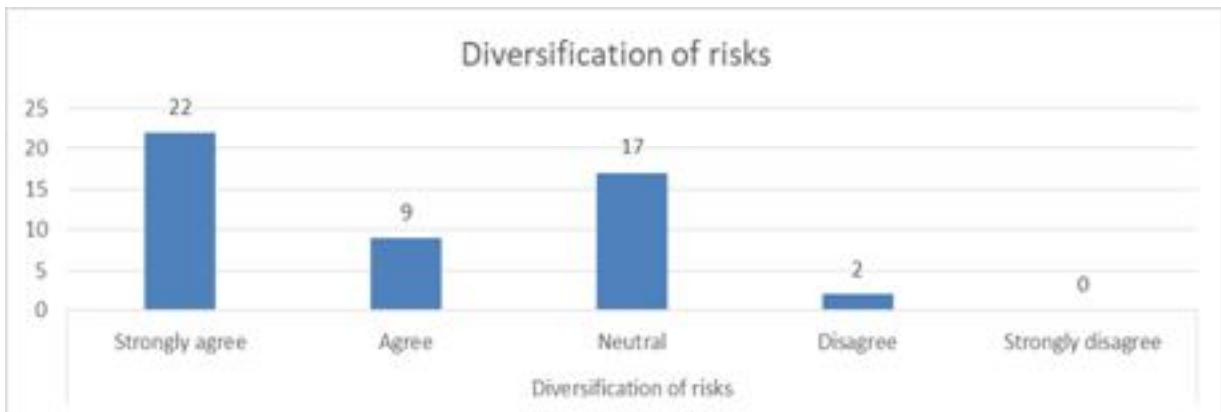
Graph 10: Dilution of funds (Source: Primary data)



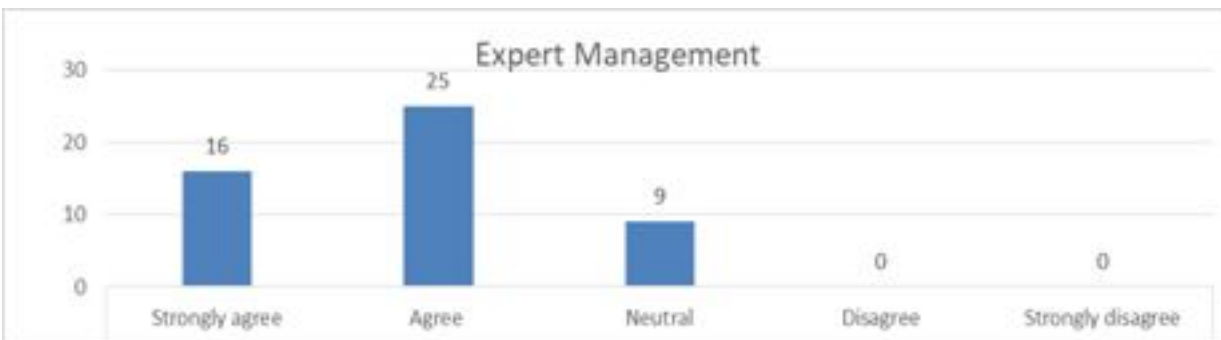
Graph 11: Liquidity (Source: Primary data)



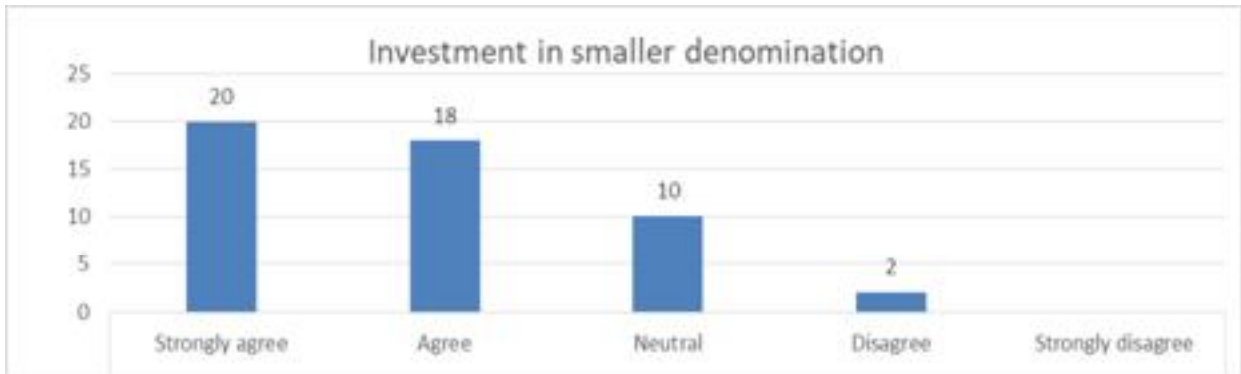
Graph 12: High profit (Source: Primary data)



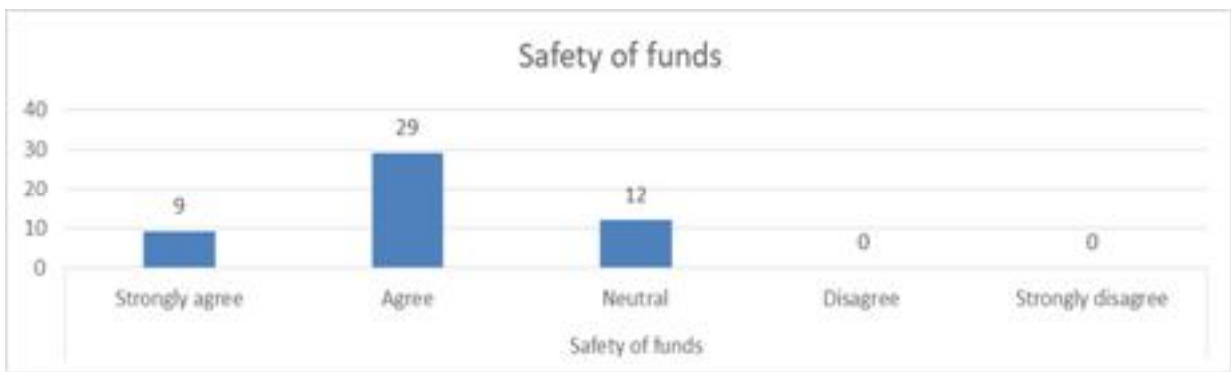
Graph 13: Diversification of risks (Source: Primary data)



Graph 14: Expert management (Source: Primary data)



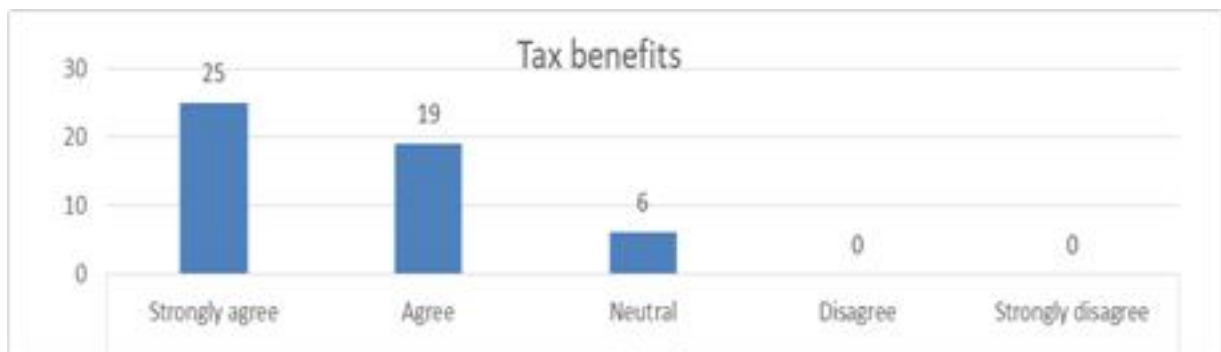
Graph 15: Investment in alternative to money (Source: Primary data)



Graph 16: Safety of funds (Source: Primary data)



Graph 17: Transparency (Source: Primary data)



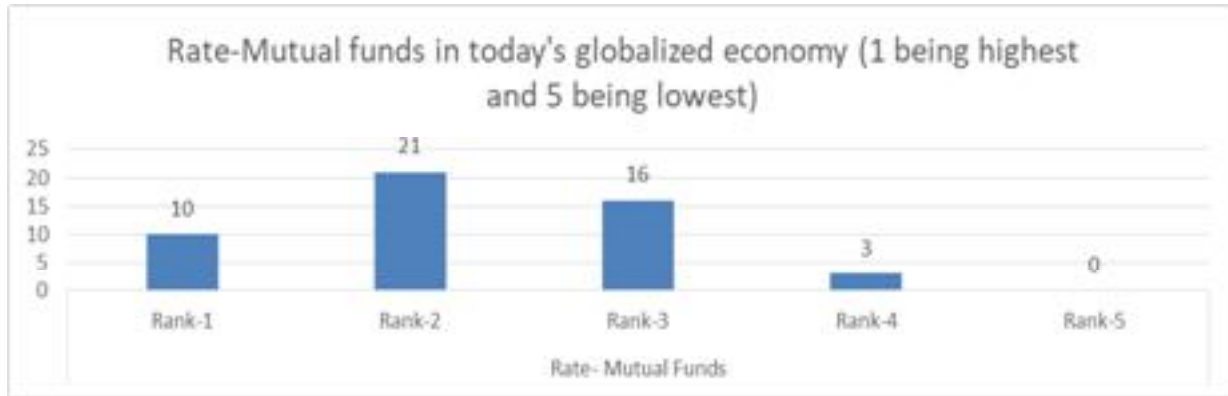
Graph 18: Tax benefits (Source: Primary data)

Respondents prefer to invest in mutual funds, if the listed facilities are provided. The facilities such as , minimum guarantee, less risks, expecting return in shorter duration, investment in alternative to money, cultivate the habit of savings in new customers

FACILITIES	Strongly agree	Agree	neutral	disagree	strongly
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					disagree
Minimum guarantee	22	12	14	2	0
less risks	6	30	14	0	0
Expecting return in shorter duration	7	23	18	2	0
Investment in alternative to money	26	16	8	0	0
cultivate the habit of savings in new investors	13	35	0	2	0

Table 1- Facilities are to be provided (Source: Primary data)



Graph 19: Rating of Mutual funds (Source: Primary data)

Out of 50 respondents, 21 of them have ranked 2, 16 of them have ranked 3, 10 of them have ranked 1 and 3 of them have ranked 4 for the role of mutual funds in today's globalized economy.

FINDINGS FROM THE STUDY

- Past experiences of the investors plays an important role in investment decision making. They build trust towards mutual funds once they get the return what is expected.
- The customer generally prefers open ended mutual funds and the equity mutual fund scheme which yields expected benefits within the stipulated period.
- From the research conducted, it is most ranked investment pattern by the investors is investing in nationalised banks, stock market, mutual funds, insurance, post office, co-operative banks and chit funds.
- Out of 50 respondents, 26 of them have agreed to invest in mutual funds, 10 have strongly agreed and 14 have neutral decisions for the same.
- Out of 50 respondents, 21 of them have ranked 2, 16 of them have ranked 3, 10 of them have ranked 1 and 3 of them have ranked 4 for the role of mutual funds in today's globalized economy.
- There are numerous reasons by the investors not trading with the mutual funds such as high risks, long term duration, fees and expenses, dilution of funds.

SUGGESTIONS AND RECOMMENDATIONS

- The mutual funds designers must have to implement innovative products to expand the scope of the mutual funds.
- The awareness has to be spread among the general public in order to increase the trust and loyalty.
- Due to seasonal variation of interest rate, it is advised to stick for the fixed interest rates.

CONCLUSION

The mutual funds is one of the tools of financial savings scheme. The major factors that drives the investors in investment making process are high return on investment, capital appreciation, tax benefits and stability of

the price. Attitude of investors towards Mutual Funds plays a prime role in investment decision making. In the system of mutual funds, the risk of loss is comparatively less when compared with direct dealing with stocks and shares. The diversification of the funds creates a platform for the capital appreciation and minimum guarantee of the principle amount. The development of country's economy is directly depends on the investments done by the investors in various sectors and considers cash inflow and outflow in the financial system.

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