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STUDY OF PERFORMANCE OF INVESTMENT IN EQUITY DIVERSIFIED MUTUAL FUNDS

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ABSTRACT: A mutual fund is known as investment fund managed. It pools cash/money from various investors in order to buy securities. Generally Mutual fund is applied only to those investment vehicles that have been sold to public. A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is invested by the fund manager in different types of securities depending upon the objective of the scheme. These could range from shares to debentures to money market instruments. The income earned through these investments and the capital appreciations realized by the scheme are shared by its unit holders in proportion to the number of units owned by them. Thus, a Mutual Fund is the most suitable investment for the common person as it offers an opportunity to invest in a diversified, professionally managed portfolio at a relatively low cost. The small savings of all the investors are put together to increase the buying power and hire a professional manager to invest and monitor the money. Anybody with an investible surplus of as little as a few thousand rupees can invest in Mutual Funds.

[1] Introduction

A **mutual fund** is known as investment fund managed. It pools cash/money from various investors in order to buy securities. Generally Mutual fund is applied only to those investment vehicles that have been sold to public. A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is invested by the fund manager in different types of securities depending upon the objective of the scheme. These could range from shares to debentures to money market instruments. The income earned through these investments and the capital appreciations realized by the scheme are shared by its unit holders in proportion to the number of units owned by them. Thus, a Mutual Fund is the most suitable investment for the common person as it offers an opportunity to invest in a diversified, professionally managed portfolio at a relatively low cost. The small savings of all the investors are put together to increase the buying power and hire a professional manager to invest and monitor the money. Anybody with an investible surplus of as little as a few thousand rupees can invest in Mutual Funds. Each Mutual Fund scheme has a defined investment objective and strategy.

Types of Mutual Fund Schemes

Mutual Fund schemes may be classified based on its structure and its investment objective.

- Open-end Funds, Closed-end Funds and Interval funds are the funds by structure.
- Funds by Investment objective are Growth Funds, Income Funds, Balanced Funds and Money Market Funds.
- The Other Schemes in funds are Tax Saving Schemes, Index Schemes and Sectoral Schemes.

Types of mutual funds

There are three principal types of mutual funds in United States:

1 Open-end funds
2 Unit investment trusts (UITs)
3 Closed-end funds

Structure of Mutual Fund

Mutual funds are not taxed on their income/earnings & profits.

1 They must diversify their investments.

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2 Restrict ownership of voting securities.
3 Distribute most of their income/earnings to their investors annually.
4 Earn most of income/earnings by investing in securities & currencies.

There is an exception that net losses incurred by a mutual fund are generally not distributed to fund investors but are retained by fund to be able to offset future gains. Characterization of a fund's income/earnings is unchanged when it is paid to shareholders.

Eg. when a mutual fund distributes dividend income/earnings to its shareholders, fund investors report distribution as dividend income/earnings on their tax return. So mutual funds are called pass-through vehicles, as they simply pass on income/earnings & related tax liabilities to their investors.

[2] REVIEW OF LITERATURE

Saha, Tapas Rajan (2003) identified that Prudential ICICI Balanced Fund, Zurich Equity Fund were the best among the equity funds while Pioneer ITI Treasury scheme was the best among debt schemes. He concluded that, the efficiency of the fund managers was the key in the success of mutual funds.

Byrne (2005) shows that risk and investment experience tend to indicate a positive correlation. Past experience of successful investment increases investor tolerance of risk. Inversely, unsuccessful past experience leads to reduced tolerance to risk. Therefore past investment behavior affects future investment behavior.

Corter and Chen (2006) studied that investment experience is an important factor influencing behavior. Investors with more experience have relatively high risk tolerance and they construct portfolios of higher risk.

Mostafa Soleimanzadeh (June 2006) in his article, “Learn how to invest in Mutual Funds” discussed the risk and return in mutual funds. He stated that the risk and return depend on each other, the greater the risks, the higher the potential return; the lower the risk, the lower the expected return. Mutual funds try to reduce their risk by investing in a diversified group of individual stocks, bonds, or other securities. He concluded that the investment in stocks can get more return than mutual funds but by investing in mutual funds, the risk is lower.

Muthappan P K and Damodharan E (2006) evaluated 40 schemes for the period April 1995 to March 2000. The study identified that majority of the schemes earned returns higher than the market but lower than 91 days Treasury bill rate. The average risk of the schemes was higher than the market. 15 schemes had an above average monthly return. Growth schemes earned average monthly return. The risk and return of the schemes were not always in conformity with their stated investment objectives. The sample schemes were not adequately diversified, as the average unique risk was 7.45 percent with an average diversification of 35.01 percent. 23 schemes outperformed both in terms of total risk and systematic risk. 19 schemes with positive alpha values indicated superior performance. The study concludes that the Indian Mutual Funds were not properly diversified.

[3] RESEARCH METHODOLOGY

Scope of Study

The study has aimed at understanding and analyzing the types Mutual Fund. It analyze the funds depending on equity diversified and balanced mutual funds. Subject

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matter is related to the investors approach towards mutual funds and investment options in equity diversified and or balanced mutual funds India. The research has been conducted in the geographical area of Bhavnagar District.

Research Design

The research is primarily both exploratory as well as descriptive in nature. The sources of information are both primary & secondary. A well-structured questionnaire have been prepared and

personal interviews to be conducted to collect the information of investor's investment pattern. Hence, in broader sense the present study has been defined as Exploratory & Descriptive Research.

Data Sources

For the data collection purpose the following two sources has been used

Secondary Sources: Secondary data that is to be utilized in the project has been collected through Internet, Magazines, Newspapers, Reference books and Journals.

Primary Sources: Primary data has been collected through questionnaires and informal interviews.

Sampling Size and Sample Unit

Based upon convenience sampling, the data has been collected as per statistical requirement of the study. The respondents has been approached to fill up questionnaires. Different cities are having different mindset towards mutual funds namely saving mentality, risk cover mentality, return on investment mindset, etc. The sample unit has been the individual investors. And overall 200 sample responses, which has been collected from Bhavnagar District.

Statistical Tools

Measures of Central Tendency, Measures of Dispersion, Mean, Correlation, Regression analysis , Analysis of Time Series, Analysis of Variance, Chi-square Test, Index Numbers, Tabulation, Diagrammatic and Graphical Presentation of Data has been used as and when required has been used as statistical tools.

[4] PROBLEM IDENTIFICATION

This study deals with studying the investor perception and awareness about mutual funds. The objective of investment in Equity Diversified and Balanced Mutual Funds has been studied.

LARGE CAP »	Crisil Rank	RETURNS (%)		
		6 mth	1 yr	3 yr
BNP Paribas Equity Fund (G)	Rank 1	-6.2	-10.8	18.1
Franklin India Oppor. (G)	Rank 1	-5.4	-10.0	20.0
Kotak Select Focus Fund - Regular (G)	Rank 1	-5.2	-4.9	21.4
SBI Blue Chip Fund (G)	Rank 1	0.2	-2.7	19.9

Fig 1 Popular Large Cap

SMALL & MID CAP »	Crisil Rank	RETURNS (%)		
		6 mth	1 yr	3 yr
DSP-BR Micro Cap Fund - RP (G)	Rank 1	-3.1	0.7	38.6
Mirae Emerging Bluechip Fund (G)	Rank 1	-3.8	-0.4	32.0
Reliance Small Cap Fund (G)	Rank 1	-4.2	--	36.5

Fig 2 SMALL & MID CAP

BALANCED »	Crisil Rank	RETURNS (%)		
		6 mth	1 yr	3 yr
L&T India Prudence Fund (G)	Rank 1	-2.6	-1.5	20.8
SBI Magnum Balanced Fund (G)	Rank 1	0.4	-1.3	20.1

Fig 3 HYBRID FUND

DEBT LONG TERM »	Crisil Rank	RETURNS (%)		
		6 mth	1 yr	3 yr
Axis Income Fund - Reg. (G)	Rank 1	2.9	6.5	8.7
DSP-BR Strategic Bond-Inst (G)	Rank 1	2.7	6.1	9.1
Tata Dynamic Bond - Regular Plan (G)	Rank 1	2.4	6.0	9.9

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Fig 4 DEBT LONG TERM

[5] OBJECTIVES OF THE STUDY

The objectives of the study are as follows:

To know the purpose and performance of investment in equity diversified mutual funds To study the purpose and performance of investment in balanced mutual funds .To examine the risk and return relationship with reference to equity diversified and balanced mutual funds .To make comparative study of lower risks and higher returns of equity diversified and balanced mutual funds .To make suggestion for the growth of the Mutual Funds in India

[6] SIGNIFICANCE OF THE STUDY

Mutual Fund known as most suitable investment for common person as it offers an opportunity to invest in a diversified, professionally managed portfolio at a relatively low cost. Small savings of all investors are put together to increase the buying power and hire a professional manager to invest and monitor the money. Prototype investment where the post offices and typically the scheduled banks through savings and fixed deposits have changed and with the awareness of finance, Mutual fund has became an excellent route to create wealth for the public at large. Wealth creation over years has modified its avenues and area of interest for investors in India.

The diversification has been broadened with the revolution and mutual fund has become a major investment destination by yielding more returns. I like to conclude the article with a note that mutual fund as an investment destination is gaining momentum and in future mutual fund must emerge as a strong capital appreciation tool for the purpose of financial planning. Wealth creation over the years has changed its avenues and area of interest for the investors in India. The prototype investment where the post offices and typically the scheduled banks through savings and fixed deposits have changed and with the awareness of finance, Mutual fund has became an excellent route to create wealth for the public at large. The concept of mutual fund which is a suitable for the common man as it offers an opportunity to invest and diversified, professionally managed basket of securities comparatively at low cost. The investors pool their money to the fund manager and the fund manager invests the money in the securities and after generating returns passed back to the investors.The mutual fund has a structure which is regulated by SEBI and the Association of mutual funds of India (AMFI) plays an advisory role for the mutual funds. There are lot of entities involved in between Unit Holders and SEBI which includes Sponsors, Trustees, Asset Management Company (AMC), mutual fund, Transfer agent and custodian.The diversification has been broadened with the revolution and mutual fund has become a major investment destination by yielding more returns. I would like to conclude the article with a note that mutual fund as an investment destination is gaining momentum and in future mutual fund must emerge as a strong capital appreciation tool for the purpose of financial planning.

[7] LIMITATIONS OF STUDY

1. The study is based upon secondary data taken from various published sources and websites, and as such its analysis and interpretation entirely depends on the accuracy of such data.

2.The method adopted for data collection will be convenience sampling; hence, the limitations of the convenience sampling automatically apply to the study.

3.Some respondents may be reluctant to divulge personal information, which can affect the validity of all responses.

4.The research is restricted to a Bhavnagar District of the country and does not necessarily shows a pattern applicable to whole of the country.

[8] FUTURE SCOPE AND CONCLUSION

Such research would be significant in case of financial planning. Where one should invest his fund could be decided on the base of performance of Equity Funds. The risk factor is reduced as there is no direct investment in share market. The investment would be made and diversified by professionals.

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