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MARKET POTENTIAL OF MUTUAL FUNDS

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Market Potential of Mutual Funds

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Abstract – Development of an economy necessarily depends upon its financial system and the rate of new capital formation which can be achieved by mobilizing savings and adopting an investment pattern, be its self-financing i.e. direct or indirect where financial intermediaries like banks, insurance and other financial companies come in the picture and mediate between savers and borrowers of funds.

The need to mobilize small savings of household sector and to channelize it for productive purpose through financial markets, further leads to the emergence of mutual funds which help the small investors to pool their scattered small savings and to invest in those securities which otherwise would not have been possible individually.

An efficient, articulate and developed financial system is a must for the rapid economic growth and development of a country. Financial system facilitates the transformation of savings of individuals, governments and businesses into investment and consumption. A complete system is formed of specialized and non-specialized intermediaries, organized and non-organized financial markets and financial instruments and services. Financial institutions act as a mobilisors and depositories of savings, purveyors of credit and also providers of various financial services to the community. The financial system helps accelerate the rate of economic development and thereby improve the standard of living and increase the social welfare of the community. This is achieved by the financial system through mobilizing the savings and investing them gainfully.

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INTRODUCTION

The basic of a mutual fund is the “pooling” concept that pool money from a cross-section of investors by issuing units, constructs a diversified portfolio of stocks, bonds and other investment instruments, and invests the same in the capital markets. But before they can mobilize resources and invest them in the capital market, they have to be registered with the regulating authority of the country.

One of the signs of the health of discipline is its willingness to reexamine its focus, techniques, and goals as the surrounding environment changes and new problems require attention. Marketing has shown this aptitude in the past. It was originally founded as a branch of applied economics devoted to the study of distribution channels. Later marketing became a management discipline devoted to engineering increase in sales. More recently, it has taken on the character of an applied behavioral science that is concerned with understanding buyer and seller systems involved in the marketing of goods and services. Today marketing is facing a new challenge concerning whether its concepts apply in the non-business as well as the business area.

A concept is the overall idea or structure of something and marketing is how a product is moved through a channel to reach its target consumer. A marketing concept embraces the philosophy that good marketing strategy always has the needs and wants of the target market in mind. Marketing concepts are formed as creative approaches to the problem of how to get a product needed and desired by a group of consumers to be selected and purchased by this group. The crux of good marketing is being able to communicate the benefits of the products to consumers so that they will choose the product over competitors' offerings.

Mutual fund being an industry of funds i.e. products and to have a long time existence in the market its foundation should be based on its marketing i.e. services not the products or goods marketing. We strongly believe that it requires different strategies and tactics to have such foundation. And with the increasingly risky environment it has emerged as one of the important profession to focus over marketing practices. The attraction, retention and building of strong customer relationships through the quality service and services are the core part of marketing practices. As services are heterogeneous across time, organizations and people, ensuring consistent service quality is challenging. Quality actually depends on many factors that cannot be fully controlled by the service supplier such as the ability of the consumer to articulate his or her needs, the ability and willingness of personnel to satisfy those needs, the presence or absence of other customers, and the level of demand for the service. Because of these complicated factors, the service manager cannot always know for sure that the service is being delivered in a manner consistent with what was originally planned and promoted.

Mutual Funds Investment has become a subject of great importance in the present context, especially when all the investors are keen to diversify their investment to maintain a balance between Investment Return and Investment Risk. Mutual Funds Investment not only provides the customers with their much desired diversified investment portfolio, but also offers the benefit of high liquidity. Investors are free to sell their mutual fund shares any time to get back the amount that was invested in the mutual funds. It is another issue that any time selling of mutual fund shares may result in poor rate of return. For gaining the Diversified Investment Solution and the liquidity advantage, any person needs to invest in Mutual Funds. But, before investing their hard earned money one needs to carry out sincere research on the performance of those mutual funds, he is considering to invest in.

In the same way there are different types of investors and each category of investors differs in its objectives and hence it is imperative for investment managers to choose an appropriate investment policy for the group they are dealing with, further managing the investment is a dynamic and an ongoing process. Seeing various marketing practices of Mutual funds which makes them more competitive gives a sound interesting issue to be studied under this study. Due to the importance of this concept, my study would be based on knowledge based fact with theoretical as well as practical point of view.

REVIEW OF LITERATURE

Triynor and Mazuy conducted a study whether Mutual Fund Managers can outguess the market, i.e. can they anticipate successfully the major turns in the stock market or not implying thereby that they adjust the composition of their portfolios according to the expected rise or fall in the stock market. Being one of the market practices which undertake the market condition to be in consideration. The results suggested that an investor in Mutual Funds is solely dependent on general market fluctuations. It would not be better to say that a fund manager can provide the investor with a better rate of return that is higher in both the bad times and good times. Study concluded with the fact that ability to identify under priced industries and to outguess the movements in the market is a major component to consider.

Riepe, James S., studied a comparison being done between the consumer goods and mutual funds with their marketing procedure. In this, some of the techniques used to market mutual funds are not so different from those used in distributing consumer goods, have been explained. Stating that an important difference between a mutual fund and a typical consumer product is that the benefits accruing to the buyer are variable. The survey also compared characteristics of customers who buy funds sold directly to investors with those who buy from a salesperson. Concluded that, virtually all providers of goods and services want to deliver good quality. Mutual fund managers are no different. In contrast, mutual fund managers cannot make any promises about the future performance of the investment. But an predict about the future on the basis of past performances.

One method involves the sale of information directly, and another selling method – which we call indirect. In this study they try to find the optimal strategy for selling information indirectly, and compare direct and indirect sale of information.

Ansari in his article singled out the various innovative schemes of mutual funds which are responsible for mobilizing huge funds from the small savers and argued for a separate legislation for mutual funds as in the case of UTI. In his opinion the operating mutual funds have successfully launched various innovative schemes tailored to the diversified saving and investment motives and have managed to mobilize massive funds from the savers, particularly the smaller over. However, he alleged that in-spite of the valuable services being rendered by mutual funds; their working is not free from certain short comings. Therefore, he suggest that to overcome them there should also be a separate regulatory body as the SEBI is already overburdened with many other functions, as such it may not effectively supervise the working of each mutual fund.

Capon Noel, Fitzsimons, Gavan J. and Weingarten Rick**,** in this study the characteristics which differentiate affluent investors from typical investors used as the basis for strategic action. Profiling research has repeatedly found that an affluent consumer differs from typical consumers on managerially interesting dimensions. Through a co-operative arrangement with several financial advisory firms, survey was administered to 298 affluent investors. Findings conclude, although past performance and level of risk (safety) were rated the two most important factors in aggregate.

Gupta made a household investor survey with the objective to provide data on the investor preferences on Mutual Funds and other financial assets. The findings of the study were more appropriate at that time to the policy makers and mutual funds to design the financial products for the future.

RESEARCH METHODOLOGY

In research methodology, exploratory research questions have been asked during the survey and research have been verified in the context of fourteen sample based mutual fund companies. An exploratory survey identifies the important process and result variables in marketing practices decisions.

The survey has been conducted using questionnaires. Data obtained cover variables of marketing decision-making relating to different schemes offered by mutual-fund companies. Present research work is exploratory cum descriptive in nature. Researcher has contacted a number of marketing executives of mutual fund companies, marketing experts, Amfi advisors (qualified) and brokers, who had practical experience with the problem and contributed new ideas for solving the problem. Before conducting this study, the Researcher has been in contact with the Investors including Mutual fund Investors and those who invest in Banks, post offices etc. Rough problems of marketing were discussed along with them to reach the real concept of this study.

The objective of most marketing research projects is to obtain information about the characteristics or parameters of a population. A population is the aggregate of all the elements that share some common set of characteristics and that comprise the universe for the purpose of the marketing research problem. A sample, on the other hand is a subgroup of the population selected for participation in the study.

In most of the research studies, the amount of work is always limited by two constraints – time and resources. With these limitations, the sample has been drawn so that it may be representative of the entire universe. Therefore, the fourteen mutual fund companies have been selected for deep study. All the concerned head offices, regional offices and branches are sample population of this study. Convenience sampling method was followed. The researcher has chosen regional offices and head offices of every mutual fund company. All types of branches like urban, semi-urban etc. have been included in research sample. The researcher has chosen investors who are investing in the mutual fund for the last two or three years, also from urban and semi-urban areas. This has been done in view of time and financial resources available with the researcher.

NEED OF MARKETING OF MUTUAL FUND

Due to rapid advances in technology within the last 30 years, the financial services sector has moved from “face-to-face” selling to direct marketing of products and services in the form of phone, mail or computer transactions. There has been awareness within the industry that certain consumers are receptive to this newer way of marketing financial services, while other prefers personal interactions.

Although, now a days marketing has become a means of communication that engages the audience with the brand. It’s an original and unique advertising approach that immerses the customer with the brand and its even lets the customer reshape and market it in his own unique way. “Mutual Fund Investments are subject to market-risk. Please read the offer document carefully before investing”.

The above quoted statement state a part of marketing through the fund company, which specifically states on the mind of investors who in real want to get averse of risk. Each and every Investor before investing in mutual fund just takes into consideration; risk, return profit margin, market timings, and market ups and downs. For the benefit of the investors various measures or practices are opt by the fund company so that its doubts regarding its investment can be cleared out, and this all can be sorted out through various modes such as in advertisement through Television, newspapers, Banners, pamphlets, Booklets, Seminars or programs held.

So when investor buys a mutual fund unit he/she buys a part of the equity or debt portfolio owned by the mutual fund. Investors are an owner of the particular security to the extent of their contribution to the total corpus, which is represented in terms of units credited to their account.

In other words investors are buying a part ownership of various companies and when they buy a debt mutual fund it means they are buying a part right to title to debt securities. So each company for showing his market share, goodwill in a better condition, have to do marketing for the fund (products), so the need for its marketing practices arises to have its existence in the market. If profit and sales are given preferences and if Marketing practices are ignored it means one or the somewhere the company lacks to have its growth in the market.

Some of the techniques used to market mutual funds are not so different from those used in distributing consumer goods. Like other products, funds offer their buyers the promise of future benefits. Unlike other products, the nature of the benefits is less predictable. As a result, fund marketers must adapt their skills to fit the demands of a dynamic investment environment. Basically the need of marketing practices arises as with the time, because the marketers are just crowded with new ideas, marketing executives are forgetting the basics of how to separate their brand from the competition. “What marketing folks need to look for is that simple, obvious strategy and not get bogged down in the complexities” says Trout.

The communication, the major factor being surrounded known a days and as well as before if considered the 50 per cent of the work itself is done through the marketing executives.\

OBJECTIVES OF THE STUDY

Objectives are as following:

1. To study the current Marketing Practices of Mutual Funds.

2. To study the thrust area, which marketing-mix are more emphasized in selected mutual funds.

3. To study the investors perception about compliance of Marketing Practices as per SEBI norms.

4. To make recommendations for the Marketing Practices to be more effective.

CONCEPTUALIZATION OF MUTUAL FUND

Mutual funds are increasingly finding greater acceptance among investors, when it comes to planning their finance. Like any other investment, mutual fund investing also has a lot of risk involved. Though the funds are managed by professionals and fund house have adequate risk management policies in place, so it is said that Mutual fund is a mechanism for pooling the resources by issuing units to the investors and investing funds in securities in accordance with the objectives as disclosed in offer document. Investment in securities is spread across a wide cross-section of industries and sectors and thus the risk is reduced. Diversification reduces the risk because all stocks may not move in the same direction in the same proportion at the same time. Mutual fund issues units to the investors in accordance with quantum of money invested by them. Investors of mutual funds are known as unit holders.

As different investment avenues are available to investors. Mutual funds also offer good investment opportunities to the investors. Like all investments, they also carry certain risks. The investors should compare the risk and expected yields after adjustment of tax on various instruments while taking investment decision. The investors may seek advice from expert and consultants including agents and distributors of mutual fund schemes while making investment decisions. As mutual fund can fit well into either your long term or short term investment strategy, but the success of your plan depend on the type of fund you choose. As all funds invest in securities market, it is crucial to maintain realistic expectations about the performance of those markets and choose funds best suited to your needs.

Mutual fund is a retail product designed to target small investors, salaried people and others who are intimidated by the mysteries of stock market but, nevertheless like to reap the benefits of stock market investing.

Mutual fund is 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 the regulations. Thus a mutual fund collects money from the investors, issues certificates to them known as units and invest the collected money in securities so as to achieve mutual benefits in terms of capital appreciation in such securities. It is a non –depository financial intermediary, which acts as an important vehicle for bringing wealth holders and deficit units together indirectly.

The mutual fund is a trust registered under the Indian trust act. It is initiated by a sponsor. A sponsor is a person who acts alone or with a corporate to establish a mutual fund. The sponsor then appoints an AMC to manage the investment marketing, accounting and other functions pertaining to the fund.

It's a hard fact that an investment in mutual fund is always risky. Investors should always be conscious of the fact that Mutual Funds invest their funds in capital market instruments such as shares, debentures, bonds etc and that all the capital market instruments have risk. Risks can be Investor Psychology Risks, Prediction Risks, Choice Risks, and Cost Risks etc.

SCOPE OF THE STUDY

To cover the above objectives, this study takes into consideration – Kodak Mutual Fund, Birla Sun life Mutual Fund. HDFC Mutual fund, HSBC Mutual Fund, Prudential ICICI Mutual Fund, State Bank of India Mutual Fund, Tata Mutual Fund, Axis Mutual Fund, Reliance Mutual fund, Franklin Templeton India Mutual fund, Fidelity Mutual fund India, LIC Mutual fund, PNB Principal Mutual fund, covering overall combination of public-private, banking-non banking sector.

The study has concentrated over urban and semi-urban area, excluding rural area because of the non-availability of knowledge and other resources.

The study takes into consideration overall combination, so none remain behind and not stating its special preference towards a single sector, researcher decided to choose these fund.

The study considers the secondary data over the period ranging from 1991-92 to 2008-2009. No such bounding has been stated with the secondary data if it's not available.

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