Mutual Fund is an Ideal Investment Option for Wise Investor

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Abstract – In recent years Mutual Fund Industry has emerged successfully to cater the growing needs of different class of investors in India. Most of the investors are more attracted to the investments schemes offered by mutual fund institutions because they represent a sensible, efficient vehicle for individual investors to participate in the market, funds of all types with different cost and expense characteristics are created to meet the changing and growing needs of different class of investors. Mutual fund institutions offer a number of alternative types of managed portfolios to the investors to providing alternative channels of investments with ease of flexibility to reduce risks, save investments, earn good returns and utilize the services of professional management experts in the investment process.

Further the contributions of regulatory authorities in India is also noteworthy which has provided opportunities to encourage retail investors to channelize their funds to the market through efficient and effective legal frame work to protect interests of investors and encourage the growth of Indian Mutual Fund Industry.

Keywords: Open-Ended schemes, Close-Ended schemes, Net Assets Value, Systematic Investment Plan, Systematic Withdrawal Plan, Systematic Transfer Plan.

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INTRODUCTION

The formation of Unit Trust of India marked the evolution of Indian Mutual Fund industry in the year 1963. The primary objective at that time was to attract small investors and it was made possible through the collective efforts of the government of India and the Reserve Bank of India. UTI launched its first scheme in 1964 which attracted large investors in any single investment scheme over the years. In 1987 the Indian Mutual Fund industry witnessed a number of public sector players like State Bank of India Mutual Fund, Canbank Mutual Fund, LIC Mutual Fund, Indian Bank Mutual Fund, Bank of India Mutual Fund, GIC Mutual Fund and PNB Mutual Fund. By the 1993, the assets under management of Mutual Fund Industry increased to 47,004 crores and UTI still remained market leader in the Mutual Fund Industry. By 1993 through the permission by government to private sector many private sector and foreign institutions have entered Mutual fund Industry with wide range of schemes to attract investors in this industry.

In the year 1996 Mutual Fund industry came under the strict regulations of SEBI to protect the interest of investors and government of India offered tax benefits to investors to encourage them, further SEBI Mutual Funds regulations 1996 came into force which regulated the growth performances and development of Mutual Funds in India. By 2008 the combined average assets under management of the 34 Mutual Fund houses was Rs.5, 29, 629, 46 crores in July, 2008.

MEANING AND DEFINITION OF MUTUAL FUND

SEBI (Mutual Fund) Regulations 1993 defines Mutual Fund as "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 securities in accordance with these regulations".

Mutual fund is a mechanism that pools together funds from investors to purchase stocks, bonds or other securities. An investor can participate in the Mutual Fund by buying the units of the fund; each unit is backed by a diversified pool of assets, where the funds have been invested. The investor can trade the units in the stock markets just like other securities .The prices may be either quoted at a premium or discount.

TYPES OF MUTUAL FUNDS

Mutual Fund can be classified on various basis which are existing in the industry they are:

1. On the basis of structure

a. Open-Ended schemes

In the Open-end schemes, units are sold and bought continuously. The Investors can directly approach the fund managers to buy or sell the units. When the demand is high the fund will continue to issue shares no matter how Many investors are there.

In Open-end funds there is also buy back of shares when investors wish to sell .Open-end funds are priced according to their "net asset value". Open-end funds which are conservative provide consistent returns with Low risk, those Open-end funds which are aggressive in constant trading provide capital gains.

b. Close-Ended schemes

Under this scheme the fund has fixed number of units outstanding, it is open for a specific period. The fund and the number of units are pre-determined, once the subscription reaches the pre-determines level, entry of investors is closed, when the fixed period expires the entire amount is disinvested and the proceeds are distributed to unit holders in proportion to their holdings.

Close-end schemes are usually illiquid as compared to open-end schemes, Hence they trade at a discount to the NAV.

c. Interval schemes

Interval schemes have combined features of open ended schemes. They may be traded on the stock exchange or may be open for sale or redemption during predetermined intervals at NAV based prices.

2. On the basis of investment objectives

a. Equity schemes

Equity schemes are also called as growth schemes because they invest a majority of their mobilized funds in equities, a small portion of funds are invested in money market instruments these schemes provide high returns but they are subject to the risk of fluctuations in value in short term.

b. General Purpose Equity Schemes

These schemes are commonly known as income schemes, they have a Diversified portfolios to reduce the risks in equity investment through Diversification they reduce the risks but are exposed to market risks these Schemes are ideal for conservative investors.

c. Money Market Schemes

These schemes invest in short term money market instruments which has maturity less than a year. These schemes have become popular among institutional investors and high net worth individuals having investment objectives for short term periods and higher returns.

d. Guilt funds

Primarily Guilt funds invest in government securities. The risk is very low and ensures constant returns.

e. Balanced schemes

These schemes invest in both in debt instruments as well as equities and investments are balanced between mix of equity and debt to earn regular income and get moderate capital appreciation.

3. Other new schemes

a. Tax Saving Schemes

The Investors are encouraged to invest in equity markets through equity linked savings scheme by offering them a tax debate, units purchased cannot be transferred, pledged, or assigned till completion of 3 years from the date of allotment.

b. Sector Specific Equity Schemes

These schemes invest their funds in one or more predefined sectors e.g. Service sectors. They depend upon the performance of these sectors; it is risky compared to general purpose equity schemes.

c. Index Schemes

As Index serves as a benchmark to evaluate the performance of mutual funds. Certain groups of investors prefer to invest in market in general rather than specific fund. Index funds are launched and managed for such investors.

METHODS OF INVESTING IN MUTUAL FUNDS

1. Systematic Investment Plan

SIP has made investments easy within the reach of the average person who as Small money to invest which ranges from Rs500 or Rs 1000 on a regular basis in place of a huge one time investment, it enables investor to actually start investing early and thus realize all the more the benefits of compounding to the maximum.

2. Systematic Withdrawal Plan

SWP is a plan designed to make investments easy for investors it not only allows you to withdraw money from a mutual fund in equal installment at periodic intervals, but also allows you to choose the quantum and periodicity of withdrawals from the fund.

3. Systematic Transfer Plan.

STP is more focused on transfers than expenses. It allows investors to make periodic transfers from one fund into the other. Therefore, if investor made a profit of say Rs. 50,000 in equity fund investments and want to keep it safer investments ,say a debt fund, then the STP does precisely this for the investor.

Major Players in Mutual Fund Industry

1. Bank Sponsored

1. Joint Ventures – Predominantly Indian

2. SBI Funds Management Private Ltd.

2. Others

1. BOB Asset Management Co. Ltd.

2. Canbank Investment Management Services Ltd.

3. UTI Asset Management Co. Private Ltd.

3. Institutions

1. Jeevan Bima Sahayog Asset Management Co. Ltd.

4. Private Sector

1. Indian

2. Benchmark Asset Management Co. Private Ltd.

3. Cholamandalam Asset Management Co. Ltd.

4. Credit Capital Asset Management Co. Ltd.

5. Escorts Asset Management Ltd.

6. J. M. Financial Asset Management Private Ltd.

7. Kotak Mahindra Asset Management Co. Ltd.

8. Reliance Capital Asset Management Ltd.

9. Sahara Asset Management Co. Private Ltd.

10. Sundaram Asset Management Co. Ltd.

11. Tata Asset Management Ltd.

5. Joint Ventures – Predominantly Indian

1. Birla Sun Life Asset Management Co. Ltd.

2. DSP Merrill Lynch Fund Managers Ltd.

3. HDFC Asset Management Co. Ltd.

4. Prudential ICICI Asset Management Co. Ltd.

6. Joint Ventures – Predominantly Foreign

1. ABN AMRO Asset Management (India) Ltd.

2. Deutsche Asset Management (India) Private Ltd.

3. Fidelity Fund Management Private Ltd.

4. Franklin Templeton Asset Management (India) Private Ltd.

5. HSBC Asset Management (India) Private Ltd.

6. ING Investment Management (India) Private Ltd.

7. Morgan Stanley Investment Management Private Ltd.

8. Principal Pnb Asset Management Co. Private Ltd.

9. Standard Chartered Asset Management Co. Private Ltd

IMPORTANTANCE OF MUTUAL FUNDS

1. Channelizing Savings for Investment

2. Offering wide portfolio Investment

3. Providing better yields

4. Rendering Expertise Investment at low cost.

5. Providing research service.

6. Offering Tax benefits.

7. Introducing flexible Investment schedule.
8. Supporting capital markets.
9. Simplified record keeping.
10. Promoting Industrial Development,
11. Keep the money market active.
12. Acting as substitute for Initial public offer.
13. Professional Management.
14. Diversification.
15. Convenient Administration.
16. Tax Benefits.
17. Liquidity.
18. Transparency.
19. Affordability.

DISADVANTAGES OF MUTUAL FUND

The disadvantages include:

1. Dilution
2. Cost

CONCLUSION:

Investment in today's era is enveloped with risks like business, credit, default, currency, interest rate, market etc. Mutual Fund allows investor to pool their money with which the investment manager would instigate investments and hence attempt to attain results as per the investor's objectives. Diversification and SIP allows investor to manage the risks. Sponsor, Trust, Trustee, Transfer Agent, Asset Management Company etc. forms key element Mutual Fund structure.

Moreover, with the investment in Mutual Fund the investor can avail tax benefits too.

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