



A Study on Risk Management in Mutual Funds

Prof. Satyajitsinh Gohil¹, Ritesh Makwana², Mayursinh Chhasatiya³

¹. Assistant Professor, Parul Institute of Management & Research (MBA), Parul University, Vadodara 391760, India

². Student, PIET (MBA), Parul University, Vadodara 391760, India

³. Student, PIET (MBA), Parul University, Vadodara 391760, India

ABSTRACT

This is study about Risk Management in mutual Funds. Essentially, risk management occurs when an investor or fund manager analyzes and attempts to quantify the potential for losses in an investment, such as a moral hazard, and then takes the appropriate action given the fund's investment objectives and risk tolerance. This paper is been processed to relate the invest practices of equity mutual funds to their management of flow risk which is defined as the adverse effect of investor flows on fund performance here in this paper we have taken 100 sample size data in the vadodra city where the results has been classified this study was selected with an objective to identify the factors of risk management in mutual funds Questioners were circulated as a part of survey and study was done to understand the risk management thus here the result of analysis will be useful to know the investors thinking on risk management in mutual funds.

Keywords: investment, Risk management, mutual funds.

1. Introduction

Performance of the underlying money collected from many investors to invest in securities like stocks, bonds, money market instruments, and other assets. Mutual funds are operated by professional money manager who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus. A Mutual Fund is a professionally managed investment company that combines the money of many individual and invest this 'pooled' money in a wide variety of different securities. In the financial world, risk management is the process of identification, analysis, and acceptance or mitigation of uncertainty in investment decisions. Essentially, risk management occurs when an investor or fund manager analyzes and attempts to quantify the potential for losses in an investment, such as a moral hazard, and then takes the appropriate action given the fund's investment objectives and risk tolerance.

2. Review Papers

1. Bala Ramasamy and Matthew C.H. Yeung (2003) in their paper titled "Evaluating mutual funds in an emerging market: factors that matter to financial advisors" have tried to identify the attributes which financial advisors consider relatively important in a mutual fund. Through a survey of previous literature they identified factors that contribute to the performance of a mutual fund. The study employed conjoint analysis to design the questionnaire and evaluates the perception of the financial advisors in Malaysia. No one factor has received as much attention in previous literature as past performance because it is seen to be the simplest and most direct method to gauge the performance of a mutual fund. To what extent the role of past performance influences the choice of funds, relative to other determining factors, is taken up in their survey. Still, there seem to be some doubts as to whether previous performance is a good indicator of future performance. They found past performance, the size of funds and cost of transaction to be the three most important factors in a mutual fund. Financial advisors are looking for consistent growth of funds over the long term. They also prefer managers who are aggressive, experienced and professionally qualified. As for funds, there is greater affinity for funds which are large and linked to a government agency. The fund management company should also provide a variety of funds at lower transaction costs. 2. Martin P. and McCann B. (1998) in their book titled "The Investor's Guide to Fidelity Funds – Winning Strategies for Mutual Fund Investing" have very nicely guided investors regarding issues related with

mutual fund investing. They have advised that Investors should focus on sectors of the global economy that have the greatest potential for profit in order to beat the market averages. By combining this approach with the safety provided by mutual funds’ inherent diversification, mutual funds become an investment vehicle with all the advantages of trading individual securities and none of the disadvantages. Like any other investment, it is essential to develop a strategy for selecting which funds to buy and sell – and when. These decisions should not be left to the emotions or to chance. 3. Gremillion L (2005) in his book “Mutual Fund Industry Handbook – A Comprehensive Guide for Investment Professionals” has given detailed information about working of mutual fund industry. It has also mentioned the different type of challenges faced by various professionals connected with this industry. The book has provided a broad and comprehensive sweep of information and knowledge, which will help everybody who has serious interest in the industry.

3. Research Methodology

Descriptive research design was used in this research which clearly indicates that the study is all about a certain characteristics of individual towards effect of social media marketing of amul on brand awareness, brand image, and brand loyalty. Convenience sampling technique was used for data collection. Response was taken from 100 sample size over Vadodara city. Questions were circulated over the targeted sample and response was taken for data analysis. Here are the questions and responses received for that.

1. What percentage of income do you save ?

Table 1: What percentage of income do you save ?

	Number	percentage
Less than 10%	52	55%
10-20%	24	25%
20-30%	14	15%
30-40%	5	5%

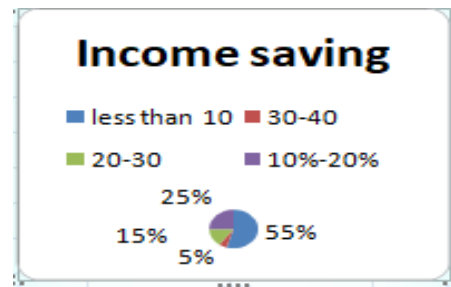


Fig. 1 – What percentage of income do you save

2. Have you invested your saving so far ?

Table 2: Have you invested your saving so far ?

	Yes	No
Number (out of 100)	66	34
Percentage	66%	34%

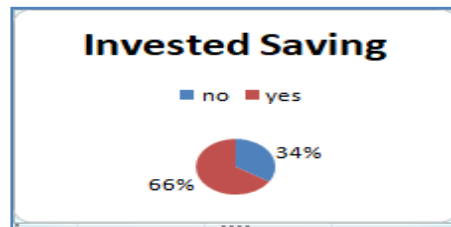


Fig. 2 Have you invested your saving so far

3. Which of the following avenues have you opted for?

Table 3: Which of the following avenues have you opted for ?

	Number	Percentage
Bank deposit	35	35%
Insurance	19	19%
Post office	5	5%
Equities	14	14%
Mutual Funds	12	12%
Real estate	3	3%
Gold	12	12%

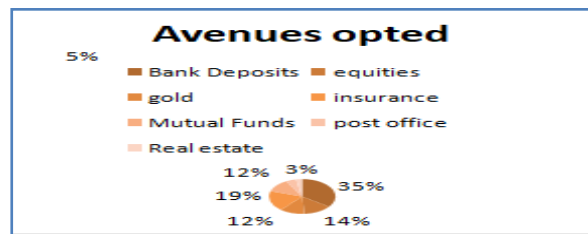


Fig.3 Which of the following avenues have you opted for

4. what do you consider the most important parameters while investing?

Table 4: What do you consider the most important parameters while investing?

	Number	Percentage
Company profile	23	23%
Return on investment	57	56%
Lower Risk Factor	18	18%
Credit rating	3	3%

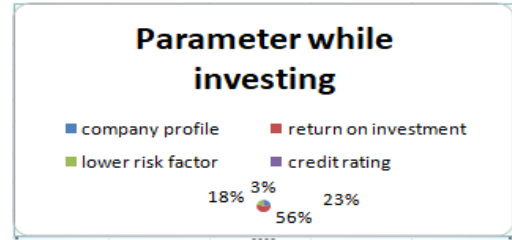


Fig. 4 –what do you consider the most important while investing

5. What will be your primary goal for investment?

Table 5: what will be your primary goal for investment?

	Number	Percentage
Children’s Marriage	7	7%
Expenses for higher edu.	26	26%
Long-term growth	50	50%
Generate cash flow to supplement regular income	18	18%

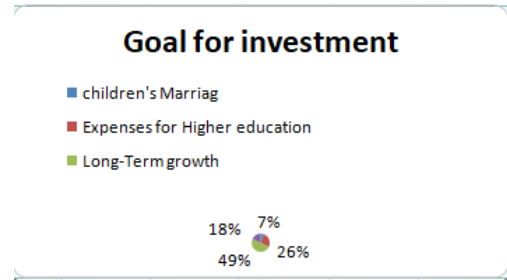


Fig. 5 –what will be your primary goal for investment

6. what will be your risk evaluating pattern while investment?

Table 6: what will be your risk evaluating pattern while investment?

	Number	Percentage
Study on company’s financial	26	26%
Research on company profile	22	22%
Advice from current investor	19	19%
Advice from professional	10	10%
Future growth	23	23%



Fig. 6 – what will be your risk evaluating pattern while investment

7. how much of a temporary decline in the value of you investment could you tolerate?

Table 7: how much your investment could be tolerate?

	Number	Percentage
No decline	26	26%
Less than 5%	33	33%
5-10%	24	24%
10-15%	12	12%
More than 15%	4	4%

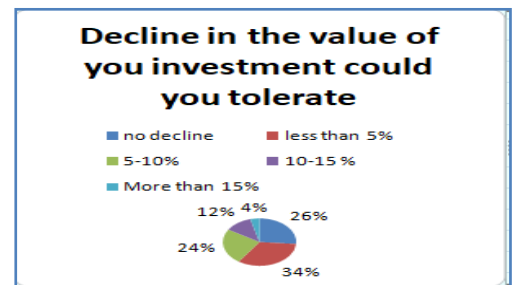


Fig. 7- how much your investment could be tolerate

8. how will you manage your equity investment risk?

Table 8: how will you manage your equity investment risk

	Number	Percentage
Investment in diversified instrument	22	22%
Investment through professional	46	46%
Through hedge funding	23	23%
Dis-invest your all investment	7	7%

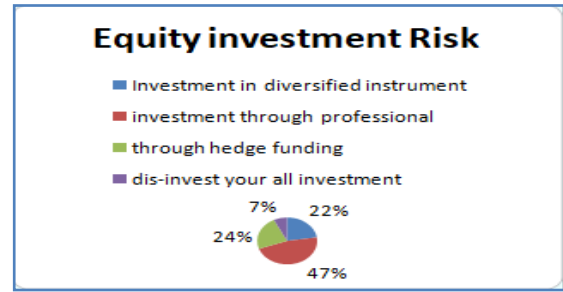


Fig. 8 – how will you manage your equity investment risk

9. if you wish to contract your own investment portfolio then what will be your risk parameters?

Table 9: Risk parameters

	Number	Percentage
Low	25	25%
Moderately low	32	32%
Moderate	29	29%
Moderately high	9	9%
high	6	6%

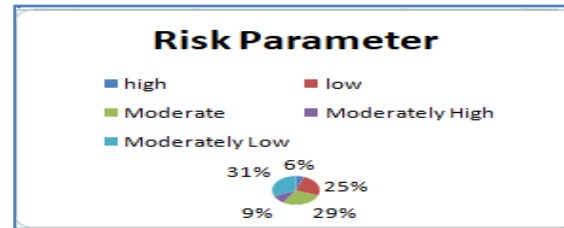


Fig. 9 – Risk parameters

10. As per your knowledge which investment gives highest return with long period of time ?

Table 10: which investment gives highest return with long period of time?

	Number	Percentage
Bank deposits	25	25%
Mutual funds	38	38%
Equities & debt	29	29%
Post office	4	4%
Government securities	6	6%

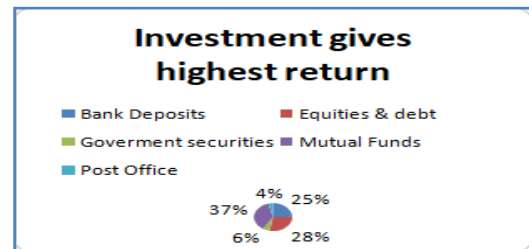


Fig. 10 – which investment gives highest return with long period of time

4. Results and Conclusion

Results:

- The Maximum respondents are from age group of 18-25 out of which there are 78% respondents are student, 22 % respondents are salaried.
- In the findings, it has been seen 81% having Rs.20,000 monthly income. And 13% respondents fall between monthly income of Rs. 20,000 to 60,000 and 6% respondents having monthly income above Rs. 60,000/-
- Out of 100 respondents, 55% of them save up to 10% of their income, 25% of them save between 10 - 20% of income, 15% of them save between 20 - 30% of income.
- The findings also revealed that the most sought investment avenue for investor is Bank Deposits followed by Mutual Fund, Insurance and Gold.
- As per the survey the most important parameter for investor who seeks for investment is return on investment after that investor also concerned about knowing company profile, low risk profile.
- The primary goal for investment of the respondents are to get long term growth.

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- Out of the 100 respondents, 65 people are saying mutual fund gives higher return followed by equity and debt market and bank deposits.
 - Out of the 100 respondents, 37 people are saying mutual fund gives higher return followed by equity and debt market and bank deposits.

Conclusion:

- Investment in Mutual Fund requires the extensive knowledge about different investment options available in the share market.
- Risk and return of a particular fund may differ from investor to investor. Different types of investor have different views about the particular fund on the basis of time period of investment, market risk, etc.
- If investor is risk tolerant person and short-term perspective it is good to invest in the Large-Caps companies' securities.
- It is very much necessary to have a thorough reading about scheme related documents as it gives the idea about where the investment is going to get invested.

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