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Mutual Funds – What are They and Their Future

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ABSTRACT

A mutual fund is a type of investment vehicle where money from multiple investors is pooled to purchase a diversified portfolio of securities, which is then managed by a professional fund manager. Since investment goals can vary greatly from person to person, it's clear that the products needed to achieve those goals will also vary. Investors buy shares in the mutual fund, and the value of those shares fluctuates based on the performance of the underlying portfolio. Mutual funds can be actively managed, meaning the fund manager makes decisions about which assets to buy and sell, or passively managed, where the fund tracks a specific market index. Mutual funds charge fees for their services, including management fees and other expenses, which are deducted from the fund's returns.

INTRODUCTION

Investing in a diversified portfolio of securities may be out of reach for small investors, but mutual funds provide them with an opportunity to do so. These funds are subject to regulatory oversight by government agencies, such as SEBI in India, to safeguard the interests of investors. Buying and selling mutual funds is relatively simple, and they can be accessed through multiple channels, including online platforms, financial advisors, and brokerage firms.They offer advantages such as diversification, professional management, liquidity, and flexibility in investment options.Basically many mutual fund companies are developing new products and services, such as socially responsible funds and low-cost index funds.Although facing challenges, mutual funds are expected to continue playing a significant role in the investment landscape in the foreseeable future. In general, mutual funds can prove to be a valuable resource for investors who wish to create diversified investment portfolios, receive professional management, and manage their investments in a convenient and accessible manner.

There are Types of Mutual Funds:

History

1. The early years (18th to early 20th century): The concept of pooling money to invest in a portfolio of securities can be traced back to the 18th century, when Dutch merchants created investment trusts to raise money for trade expeditions. However, the modern mutual fund industry started taking shape in the early 20th century, but prior to that, it was not established.

2.1920s to 1940s): The first modern mutual fund, the Massachusetts Investors Trust, was launched in 1924 by a Boston-based investment firm called MFS Investment Management. The aim of this fund was to provide an opportunity for small investors to invest in a range of stocks and bonds and diversify their portfolio. The mutual fund industry continued to grow in the 1930s and 1940s, despite the economic challenges of the Great Depression and World War II.

3. The post-World War II era (1950s to 1970s): The mutual fund industry began to grow rapidly. A number of new funds were launched, and mutual funds became an increasingly popular investment vehicle for individual investors. In the 1960s and 1970s, mutual funds became more diversified, offering investors access to a wider range of asset classes and investment strategies.

4 index funds (1970s to 1990s): This fund was designed to track the performance of the S&P 500 index, and it became popular with investors who wanted a low-cost, passive investment option. In the 1980s and 1990s, index funds and other passive investment strategies gained popularity among investors.

5. (1990s to present): The mutual fund industry underwent a period of consolidation, as larger firms acquired smaller firms. Mutual funds also evolved to offer new products and services, such as target-date funds, exchange-traded funds (ETFs), and socially responsible funds, with billions of dollars invested in mutual funds around the world.

Over the past few years, the mutual fund industry has encountered growing competition from alternative investment products like robo-advisors and exchange-traded funds (ETFs). This has led many mutual fund companies to develop new products and services, such as socially responsible funds and low-cost index funds, to remain competitive.

• The company launched its first mutual fund scheme, the HDFC Equity Fund, in 1996, which was managed by its parent company HDFC Ltd. After the establishment of HDFC Asset Management Company in 1999, the company launched its first scheme under its own management, the HDFC Top 200 Fund, in 1996.Since then, HDFC AMC has grown significantly and now offers a wide range of mutual fund schemes across various asset classes, including equity, debt, hybrid, and international funds.

Objectives of Mutual funds

The specific objectives of a mutual fund can vary depending on the type of fund and the investment strategies employed by the fund manager. However, some common objectives of mutual funds include:

1. **Capital appreciation:** Some mutual funds aim to generate long-term capital appreciation by investing primarily in equities and other high-growth assets.
2. **Income generation:** Other mutual funds focus on generating a steady stream of income for their investors by investing in fixed-income securities such as bonds, treasury bills, and other debt instruments.
3. **Preservation of capital:** Some mutual funds aim to preserve the capital of their investors by investing in low-risk securities such as government bonds and money market instruments.
4. **Risk management:** Mutual funds employ various risk management techniques to protect their investors' capital and minimize losses during market downturns.

Understand the benefits of a mutual fund of your investment goals,

1. Diversification
2. Professional management
3. Convenience
4. Liquidity
5. Cost-efficient

Research Methodology

The research methodology used in analyzing and selecting mutual funds can vary depending on the investment objectives and strategies of the fund.

1. **Fund performance analysis**: Fund performance analysis is a key part of the research process for mutual funds. This involves analyzing the historical performance of the fund, its benchmark, and its peers over various time periods.
2. **Fund characteristics analysis**: This involves analyzing various fund characteristics such as the fund's investment objective, asset allocation, holdings, expense ratio, turnover, and other key factors that can impact fund performance.
3. **Economic and market analysis:**Mutual fund managers and analysts also consider macroeconomic factors such as interest rates, inflation, and other economic indicators that can impact the performance of the funds.
4. **Risk analysis:** Fund managers also evaluate the risks associated with a particular fund, including market risk, credit risk, interest rate risk, and other factors that can impact the fund's performance.

   Research methodology for mutual funds is a multi-step process that involves a combination of quantitative and qualitative analysis.

.Functions of Mutual Fund

The mutual funds of all the categories perform following essential functions or features :

- Trading, i.e. buying and selling of various financial instruments on behalf of their clients, viz. Unit-holders.
- Offering an opportunity to small investors to become a shareholder of a large and diversified portfolio of assets with minimum exposure to associated risks.
- Investors of mutual funds are given a certificate with regard to their share of participation in the fund in the form of units.
- Mutual funds are managed by highly professional and experienced personnel, which generally ensures higher returns on the amount invested.
- They are helpful to small investors, who do not have the time, expertise, experience or resources to access capital market directly, in taking the benefits of such profitable avenue.

RBI Guidelines for Mutual Funds

i) Trustees :

The mutual fund will make a trust under the Indian Trust Act and the sponsoring bank will appoint a board of trustees for managing it.

ii)Sponsor :

The contribution of the sponsor bank is as per the specification of RBI which should have minimum capital of 2 crore or the higher amount.

iii) Mutual Fund Banks:

The banks must require permission from the RBI before. declaring any scheme of mutual fund without considering whether they are identical or not to any earlier schemes approved by RBI.

Suggestions about Mutual Funds

There are many schemes of HDFC, ICICI, Principal, Birla etc which are doing good in the market. While selecting these schemes we have to take care that we should go for different schemes. For example some schemes could be equity oriented while others might be more inclined to debt or bonds. The former are riskier while latter are not so riskier but have a low return.

It will be prudent to choose a few equity oriented schemes and a few debt oriented. In addition I will recommend to take some ELSS and tax savings scheme also as they have their other advantages. So a prudent investor believes in not putting his all the eggs in one basket.

Share markets are prone to rare but occasional disasters and one has to put only a part of ones investible corpus here and rest should be invested in bank FDs, Post Office schemes, non taxableGovt bonds etc.

Some of the good MF schemes are -

1. HDFC Balanced Advanced Growth.
2. SBI Small Cap Fund Regular Plan Growth.
3. Canara Robeco Emerging Equities Growth.
4. Axis Long Term Equity Growth.
5. Principal Hybrid Equity Fund Grow
6. ICICI Prudential Balanced Advantage Fund
7. Large Cap Equity Funds:

Conclusions

In India, mutual funds have a lot of potential to grow. Mutual fund companies have to create market innovative products and frame distinct marketing strategies. Product innovation will be one of the key determinants of success. The mutual fund industry has to bring many innovative concepts such as high yield bond funds, principal protected funds, long short funds, arbitrate funds, dynamic funds, precious metal funds, and so on. The penetration of mutual funds can be increased through investor education, providing investor oriented value added services, and innovative distribution channels**.**

Mutual funds have failed during the bearish market conditions. To sell successfully during the bear market, there is need to educate investors about risk-adjusted return and total portfolio return to enable them to take informed decision. Mutual funds need to develop a wide distribution network to increase its reach and tap investments from all corners and segments. Increased use of internet and development of alternative channels such as financial advisors can play a vital role increasing the penetration of mutual funds. Mutual funds have come a long way, but a lot more can be done.

Equity markets for a long time were a bastion for institutional investors and high net worth individuals only. The high risk return profile of equity investments was an attraction for retail investors as well. But it was only with the advent of mutual funds that they entered the stock markets in a big way.Earlier investors had to buy a minimum of 5, 10, 50 or 100 shares, depending on the face value and the company, if they made an investment in the equity markets, and this inhibited small middle class investors whose requirement was to make investment out of their small savings.

Till recently, such information was the exclusive preserve of big investors. Internet trading in India is expected to account for 10 per cent of the trading volume of the stock exchanges in a year and would grow to 25 to 30 per cent in the next few years (AMFI, 2013).

Many funds currently have NAV less than the face value, partly reflective of the fact that mutual funds are not as fool proof as was earlier believed. Hence, investors have to be careful with their investment decisions, as they are not guaranteed by the Government, Reserve Bank of India or any other government agency. A large number of such schemes have run into trouble, and though mutual fund industry is in the growth phase, with many new entrants and mergers between existing players, investors need to keep a wary eye on developments as their own money is involved.

Most people invest in mutual funds for one simple reason. They are a convenient and cost effective method of obtaining diversification and professional management. The risk factor is also considerably low. This is because mutual funds hold anywhere from a few securities to several thousand, over a number of investments. What's more, mutual funds generally buy and sell securities in volume, which allow investors to benefit from lower trading, management and research costs.

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