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A Study on Systematic Investment Plan

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ABSTRACT:

This is an attempt to know how the theories can be applied to practical situations. In the first part of the project report, the company's general information has been collected. Information is gathered through the primary and secondary sources as well. The second part of the report contains the specialized subject study. The project's objective is to work on various marketing strategies to promote the fitness training courses of the company. Goals indicate what a business unit wants to achieve; Strategy is an action plan for achieving the goals. Every business must design a strategy for achieving its goals, consisting of a marketing strategy, a compatible technology strategy, and a sourcing strategy. Marketing strategy is a process that can allow an organization to concentrate its limited resources on the most significant opportunities to increase sales and achieve sustainable competitive advantage. A marketing strategy should focus on the fundamental concept that customer satisfaction is the primary goal

1. Introduction:

A Mutual Fund is a shared pool of savings contributed to by various investors, invested in different types of funds: Equity, Debt, hybrid, etc. And they are managed by asset management companies registered with SEBI. With some portion of your investment sum set aside for these different M.F.s spanning across industries, you can keep investing systematically so that tomorrow's investor doesn't lose all his hard-earned money if one sector fails. In other words, while investing in Mutual Funds, you don't have one Fund to lean on; instead, you have multiple funds to turn to as they mature over time.

The Mutual Funds industry in India is expected to continue growing, with assets crossing the Rs 20 lakh crores mark by 2018. Take the following statistics from this year into view:

1. The combined holdings of Mutual Funds in India increased by 4.2 % to $15.72 trillion in March, according to the Investment Company Institute's official survey of the Indian M.F. industry.

2. Several long-term funds like Equity, hybrid, and bonds had a net inflow of $14.96 billion in March versus $8.48 billion in February.

3. Equity funds observed an outflow of $9.61 billion in March compared with an inflow of $8.81 billion in February, while hybrid funds posted an inflow of $3.17 billion in March compared with $1.46 billion in February.

4. Taxable bond funds had an inflow of $15.93 billion in March instead of an outflow of $3.56 billion in February.

1.1 Literature Review:

(1) Michael C. Jensen (1967) derived a risk-adjusted portfolio performance measure (Jensen's alpha) that estimates how much a manager's forecasting ability contributes to a fund's returns.

(2) Sharpe, William (1994) suggested the Sharp-Ratio technique for the performance measurement of the M.F.

(3) Michael K. Berkowitz et (1997) support the argument & state that past fund performance influences individual investment decisions and implies solid incentives for managers to increase the performance of Mutual funds.

(4) Mishra (2000) measured M.F. performance using a lower partial moment Risk from the quieter partial moment is calculated by taking into account only those states in which the return is below a pre-specified "target rate," like a risk-free rate.

(5) Graciela L. Kaminsky (2001) Due to large redemptions and injections, funds' flows are unstable. Withdrawals from emerging markets during recent crises were significant, consistent with the evidence of financial contagion.

(6) Sharad Panwar et (2005) use Residual Variance (R.V.) to measure M.F. portfolio diversification. R.V. has a direct impact on shaping fund performance measures.

(7) Marcin T. Kacperczyk (2005) demonstrated that unabsorbed information creates value for some funds. Return gap helps to predict future fund performance & investors should use additional measures to evaluate the performance.

(8) Bijan Roy caused conditional performance evaluation on 89 Indian M.F. schemes measuring with both unconditional and dependent forms of the CAPM model. The Four results suggest that using conditioning lagged information variables improves the performance of mutual fund schemes, causing alphas to shift towards the right and reducing the number of negative timing coefficients.

1. Objectives:

(1) To study the awareness about mutual funds amongst investors & to learn how to invest in mutual funds by an investor.

(2) To know the value of mutual funds in India and their significant aspects & To understand the various Funds offered by the mutual funds in India.

(3) To identify the level of risk involved in investing in various equity-diversified mutual fund schemes.

(4) To know the best mutual funds investment plan.

2. Research Method:

RESEARCH METHODOLOGY

Research methodology is based on primary as well as secondary data. However, preliminary data collection was given more importance since it is an overhearing factor in attitude studies. One of the most critical users of research methodology is that it helps identify the problem, collect and analyze the necessary information data and provide an alternative solution to the problem. It also helps manage the vital information that top management requires to assist them in better decision making, both day-to-day and critical. This project report is descriptive and based on secondary data.

SECONDARY DATA COLLECTION

Research has been done by secondary data collection. Secondary data refers to already published information. Secondary data was collected from various sources, newspapers, and industry; analysis is based on secondary data. The secondary data has been collected through multiple journals, newspapers, and websites.

3. Data representation:

Mutual funds are a one-stop shop for nearly all investment needs. They offer everything an investor seeks: low charges, ease and flexibility of investment and withdrawals, diversification, lower taxes, transparency of assets, and proper regulation. Whether an investor wants to save to buy a car or put away money for his child's higher education ten years from now, whether he wants to save tax or get regular Income in retirement, mutual funds are the best investment vehicles to reach these goals. Here are ten categories of mutual funds that can be used to save for different goals. The goals have been categorized into three broad time horizons:

a) Short Term Goals of 1-3 Years

b) Medium-Term Goals of 4-6 Years

c) Long-Term Goals of More Than 7 Years

SCHEMES ACCORDING TO INVESTMENT OBJECTIVES: Considering its investment objective, a scheme can also be classified as growth, Income, or balanced. Such schemes may be open-ended or close-ended schemes, as described earlier. Such schemes may be classified as follows:

A. Growth Or Equity-Oriented Scheme: Growth funds aim to provide capital appreciation over the medium to long term. Such schemes usually invest a significant part of their corpus in equities. Such funds have comparatively high risk. These schemes provide different options to the investors, like dividend options, capital appreciation, etc., and the investors may choose an option depending on their performance. The investors must indicate their choice in the application form. Mutual funds also allow investors to change their chances at a later date. Growth schemes are suitable for investors with a long-term outlook seeking appreciation over time.

B. Income / Debt-Oriented Schemes: Income funds aim to provide regular and steady income to investors. Such schemes generally invest in fixed-income securities such as bonds, corporate debentures, Govt. Securities and money market instruments. Such funds are less risky compared to equity schemes. These funds are not affected because of fluctuations in equity markets. However, opportunities for capital appreciation are also limited in such funds. The NAVs of such funds are affected because of changes in interest rates in the country. If the interest falls, NAVs of such funds will likely increase in the short run and vice-versa. However, long-term investors may not bother about these fluctuations.

C. Balanced Funds: Balanced funds aim to provide growth and regular income as such schemes invest in equity and fixed-income securities in the proportion indicated in their offer document. They generally invest 40% to 60% in Equity and debt instruments. These are appropriate for investors

looking for moderate growth. These funds are also affected because of fluctuations in share prices in the stock markets. However, NAVs of such funds are likely less volatile than pure equity funds.

D. Money Market Or Liquid Funds: These funds are income funds, aiming to provide easy liquidity, preservation of Capital, and moderate-income. These schemes invest exclusively in safer short-term instruments such as treasury bills, certificates of deposits, commercial paper and interbank call money, government securities, etc. These funds allow corporate and individual investors to park their surplus funds temporarily. Returns on these schemes fluctuate much less compared to other funds.

E. Gilt funds: These funds invest exclusively in Govt. securities. Govt. securities have no default risk. NAVs of these schemes also fluctuate due to changes in interest rates and other economic factors, as with Income or debt-oriented systems

F. Index funds: Index funds replicate the portfolio of a particular index such as the BSE sensitive index, S&PNSE-50 index (Nifty), etc. These are exchange-traded index funds launched by mutual funds traded on the stock exchange. These schemes invest in securities in the same weightage comprising an index. The NAVs of such systems would rise or fall under the rise or fall in the index, though not precisely by the same percentage due to some technical factors known as―tracking error‖ in technical terms. Necessary disclosures are made in the offer document of the mutual fund scheme.

G. ELSS: Equity-linked savings schemes (ELSS) are equity funds floated by mutual funds. This scheme is suited for young people as they can take on higher risks. The ELSS funds should invest over 80 percent of their money in equity and related instruments. It is ideal to support them when the markets are down. These funds are now open all year round. The other way of investing in these funds could be a systematic investment, which essentially means investing a small sum regularly (monthly or quarterly). It is a market-linked security, so there will be risks accordingly.

HOW RISKY ARE MUTUAL FUND

Investors always judge a fund by the return it gives, never by the risk it took. The return is remembered in any historical mutual fund analysis, but the risk is quickly forgotten. So a fund manager may have used very high-risk strategies (that are bound to fail disastrously in the long run), hoping that his wins will be remembered (as they often are), but the risk he took will soon be forgotten. When we think about stocks and mutual funds, we believe in Equity. All stocks can be categorized as Equity, but all mutual funds are not. A mutual fund could be Equity, Debt, or a mixture of both – usually called a hybrid. Typically investors have this mindset that whether it's stocks or mutual funds, both are equally risky; however, that's not the case. Both investments in stocks and mutual funds are meant for different types of investors, depending upon their risk appetite, age, and interest in a subject. Stated below are 5 points where stock investing is separate from mutual funds.

FEATURES OF MONTHLY INCOME PLANS

1. DIVIDENDS CAN BE DECLARED ONLY FROM THE PROFITS AND NOT FROM THE CAPITAL Regulations demand that dividends can only be paid from surpluses, not capital investments. The bonuses can be declared from earned Income only. If your initial NAV was Rs 10 and after a month, the NAV rose to Rs 10.2, the dividend can only be given out of this 0.2 and not from the initial capital value. This ensures that Company cannot show the world that they are constantly providing Income if they have not done well.

2. NO GUARANTEE OF REGULAR INCOME The biggest myth about Monthly income plans is that they provide guaranteed monthly Income, which is invalid. While MIPs aim to declare dividends regularly, it might happen that they do not express any tips because of bad performance. Additionally, the MIP has no regulation or oversight to declare regular dividends. So take it on the chin if you don't get your Income occasionally.

3. MIP RETURN IS INFLUENCED BY INTEREST RATES AND STOCK MARKET MIPs can give negative returns, but in extreme cases. Interest rates influence the debt portion. When the interest rate falls, the NAV rises as the bond price increases. When the interest rate rises, NAV falls. At such times the equity portion of the Fund helps to maintain the return.

TWO WAYS OF GETTING INCOME FROM A MIP:

We will see two different ways of generating monthly/quarterly Income through MIP's Monthly. One is the traditional way of choosing the dividend option, and option one is starting Systematic Withdrawal Plan from MIP after a year of buying it. Let's look at both its pros and cons.

1. CHOOSE DIVIDEND OPTION The excellent point in this option is that you will start collecting the Income immediately as Company starts declaring the dividends. You don't have to take care of taxation issues. However, the wrong side is that Company would eventually pay a 14% dividend distribution tax, and the income stability will depend on how often Company declares dividends.

2. CHOOSING A GROWTH OPTION AND STARTING SWP (SYSTEMATIC WITHDRAWAL PLAN) This option is that you will not have to depend on the company's dividend announcement as you decide to liquidate a fixed part of your MIPs, sell it and get the money in your bank account. The profits you get out of it would be Long term capital gains, so you only pay 10% on the profits (assuming you don't want indexation benefits), which is 4% lesser than the dividend distribution tax. Also, as you do it after 1 yr, there won't be any exit load. If you have many investments in MIPs, this option can save some tax for you, but if your assets aren't significant enough, it's not worth the hassle.

4. Conclusion

We can infer from the analysis that the concept of mutual Funds is still growing. With the growing importance of mutual funds in other areas of the country, this place is witnessing the same growth rate in mutual funds. Apart from these facts, the following are other essential facts that can easily be inferred from the paper.

1. Vast opportunities for Mutual funds exist in the Market.

2. Because many companies exist in this Market, competition is cut to the throat.

3. Customers are not adequately educated about mutual funds. The mindsets of the investors are not towards mutual funds. They still think of investing in traditional investment alternatives.

4. Few private sector banks, like ICICI, HDFC, UTI, ING VYSYA, etc., only sell mutual funds through their branches.

5. Specialized agents of mutual funds are rarely seen. Financial advisors are not seen there who can educate the investors.

6. Posters, banners, or other promotional activities are rarely seen in this Market.

7. Mutual fund companies do not have aggressive strategies.

8. Insurance products are and can be the main competitors of mutual funds.

9. Mutual fund investors are confined to this Market's upper-middle and upper-social class. Upper-lower-class and lower-upper-class people are still untouched.

10. More than half of the respondents wrongly perceive mutual funds. They feel mutual funds are hazardous investment alternatives.

11. Most of the respondents are satisfied with their current return on their investment.

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