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Kaleidoscopic View of Mutual Fund Industry

Ankita Gupta[1] and Arpita Gupta[2]

[1]Department of Business Management Dr. Virendra Swarup Institute of Computer Studies, Kanpur
[2]CMR Institute of Technology, VTU, Bangalore
E-mail: ankitag240590@gmail.com, [2]talktoarpitagupta@gmail.com

Abstract—*As bread and butter are important for daily living similarly investment is crucial for future living. Investment is the spending of time, money in the hope of future benefits. Mutual Fund is a best defence against social security. As it provides you the liberty to decide what to invest, when to invest, where to invest and more than that it gives you a relaxation to make deposits in installment which an investor is in need of.*

This paper showcases my effort to bring up the myth and realities of mutual fund industry. Through this paper I have made an attempt to throw some light on the various active and inactive players who somehow influence the growth and decline of mutual fund industry. It throws some light on the dominant players who are directly or indirectly ruling the mutual fund industry.

It provides a clear picture and view of the market participants towards mutual fund. It also brings light on the pattern of investment which is generally followed during investment. . It accomplishes with opening doors of more and more people for investing in mutual fund. In short –"A KNOWN DEVIL IS BETTER THAN AN UNKNOWN ANGEL".

Keywords: *Futuristic Approach, Defensive investment, investors liberty, Risk & Return, Investors objective.*

1. INTRODUCTION

Mutual funds have become extremely popular over the last 20 years. What was once just another obscure financial instrument is now a part of our daily lives. More than 80 million people, or one half of the households, invest in mutual funds. That means that, trillions of dollars are invested in mutual funds. A mutual fund is akin to portfolio management service.

After all, its common knowledge that investing in mutual funds is (or at least should be) better than simply letting your cash waste away in a savings account, but, for most people, that's where the understanding of funds ends. Mutual Fund works like a trust and are legally called "Asset Management Companies". It is a "GLOBALLY PROVEN INVESTMENT AVENUE". It is well said by Kautilya, "You don't have to start wealthy to become wealthy". The quote best suits to mutual fund.

Thus, it is an investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, money market instruments and similar assets. Mutual funds are operated by money managers, who invest the fund's capital and attempt to produce capital gains and income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

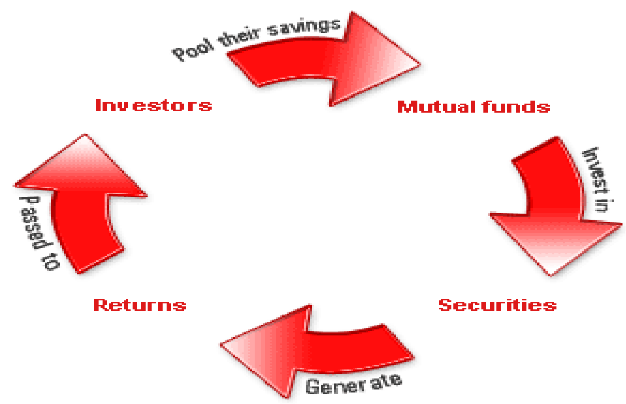

Fig. 1: Mutual Fund Cycle

2. INCEPTION OF MUTUAL FUNDS

In the year 1822 the Mutual fund was first introduced in Belgium later it extent to Great Britain and France. Mutual funds became popular in the United States in the 1920s and continue to be popular since the 1930s, mainly open-ended Mutual funds. According to Mutual fund source after World War II, in 1980s and 1990s Mutual funds had experienced a period of incredible growth. With the formation of UTI, the Mutual fund industry in India started in 1963 at the initiative of the Government of India and RBI. In the year 1978 IDBI took UTI over the regulatory and administrative control from the RBI. In the year 1964, UTI launched its first Unit Scheme

UTI enjoyed a monopoly in the Indian mutual fund market. Then a host of other government controlled Indian financial companies came up with their own funds. During the fourth phase, the flow of funds into the kitty of mutual funds sharply increased. This significant growth was aided by a more positive sentiment in the capital market.

3. MODIFICATION IN NORMS

Apex sect oral body (AMI) has issued a fresh code of conduct for mutual fund intermediaries like agents and distributors, mandating them to disclose all commissions received from different schemes.

The revised code of conduct was issued by the association of mutual funds in India(AMFI) following market regulator SEBI's circular asking the mutual fund distributors to disclose all the commissions from various schemses.

4. KALEIDOSCOPIC CHARACTERISTICS

Mutual fund has become a hot favorite of millions of people all over the world. The driving force of mutual fund is the 'safety of the principal 'guaranteed, plus the added advantage of capital appreciation together with the income earned in the form of interest or dividend. People prefer mutual fund to bank deposit, life insurance even bonds because with a little money, they can get into the investment game. The various players involved in mutual fund are-Government, Investors, Company, AMFI, Intermediaries etc. These intermediaries view the mutual fund industry from various angles.

5. GOVERNMENT EYESHOT

In 1992, securities and exchange board of India (SEBI) Act was passed. The objectives of SEBI are-to protect the interest of investors in securities and to promote the development of and to regulate the securities market. SEBI formulates policies and regulates the mutual fund to protect the interest of the investors. SEBI has also issued guidelines to the mutual funds from time to time to protect the interest of the investors.

6. AMFI EYESHOT

AMFI is dedicated to developing the Indian mutual industry on professional, healthy and ethical lines and to enhance and maintain standards in all areas with a view to protecting and promoting the interest of mutual funds.

The Association of mutual funds in India (AMFI) is dedicated to developing the Indian Mutual Fund Industry on professional, healthy and ethical lines and to enhance and maintain standards in all areas with a view to promoting and protecting the interest of mutual funds and their unit holders.

7. INVESTORS

The risk appetite is an important factor while choosing the mutual funds scheme/s that fits your goals of growth, stability and timeframe. When considering investment opportunities, the first challenge that almost every investor faces is a plethora of options. From stocks, bonds, shares, money market securities, to the right combination of two or more of these, however, every option presents its own set of challenges and benefits. Mutual funds allow investors to pool in their money for a diversified selection of securities, managed by a professional fund manager. Mutual Funds help investors generate better inflation-adjusted returns, without spending a lot of time and energy on it. Going by the adage, *'Do not put all your eggs in one basket'*, mutual funds help mitigate risks to a large extent by distributing your investment across a diverse range of assets. Mutual funds offer a great investment opportunity to investors who have a limited investment capital.

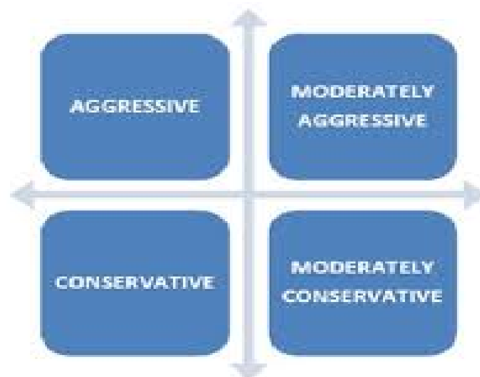

Fig. 2: Investors Temperament

8. INTERMEDIARIES EYESHOT

Mutual Funds have relied extensively on intermediaries to market their schemes to investors. It would be accurate to say that without intermediaries, the mutual fund industry would not have achieved the depth and the breadth of coverage amongst investors that it enjoys today. Intermediaries have played a pivotal and valuable role in popularizing the concept of mutual funds across India. They make the forms available to clients, explain the schemes and provide administrative and paperwork support to investors, making it easy and convenient for the client to invest. Intermediaries have undergone a change over the past years. Not only individual agents but nowadays institutional agents, distribution companies and national brokers soon started to play an active role in promoting mutual funds. Now even banks, finance companies, secondary market brokers and even post office have begun to market mutual fund.

9. COMPANY EYESHOT

Both the private and public sector companies are involved in mutual fund. Mutual fund has given a way to the companies to flourish in the financial sector. People are well attracted to the companies due to their return value involved in it. Below is the chart which provides the profits earned by the companies and also attracts attention of the future investors for more and more investment.

NET PROFITS OF MFs IN FY15

	2014-15	2013-14
HDFC Mutual Fund	416	357.77
ICICI Prudential Mutual Fund	247	182.69
Reliance Mutual Fund	357	303.94
SBI Mutual Fund	163	155.77
Franklin Templeton Mutual Fund*	262.82	135.31
Kotak Mahindra Mutual Fund	-36.18	33.39

*Financial year ending September

Source: Company Press Release and Investor Presentation

Fig. 3: Net Profit

10. ECONOMY'S PERSPECTIVE

There is lot of investment avenues available today to an investor. In the financial market an investor with an investible surplus can deposit in bank, corporate debentures and bonds where there is low risk and low return. He may invest in stock of companies where the risk is high and return is also proportionately high. These investors have found a good shelter with the mutual funds. Mutual fund industry has seen a lot of changes in the past few years with multinational companies coming into the country; bring in their professional expertise in managing funds worldwide. In the past few months there has been a consolidation phase going on mutual fund industry in India. Now investors have a wide range on schemes to choose from depending on their individual profile.

The Indian mutual fund industry had a quick growth as a result of country's infrastructural development, growth in personal financial assets, and increase in foreign participation. The industry withstands with growing risk appetite, increasing income, and growing awareness, mutual funds in India are becoming an ideal investment choice compared to safe investments such as Fixed Deposits and postal which give comparatively low returns.

11. CONCLUSION

Mutual funds are considered as one of the best available investments as compare to others they are very cost efficient and also easy to invest in, thus by pooling money together in a mutual fund, investors can purchase stocks or bonds with much lower trading cost. But the biggest advantage to mutual fund is diversification by minimizing risk and maximizing returns. Mutual fund industry today is one of the most preferred investment avenues in India. Mutual funds are popular because they make it easy for small investors to invest their money in a diversified pool of securities. The mutual fund industry has witnessed considerable growth since its inception in 1963.

The impressive growth in the Indian mutual fund industry in recent years can largely be attributed to various factors such as rising household savings, comprehensive regulatory framework, favourable tax policies and introduction of several new products, investor education campaign and role of distributors.

Today the industry has introduced an array of products such as liquid/money market funds, sector specific fund, index fun, guilt fund, special category fund, exchange traded fund etc. From the above discussion we conclude that the mutual funds are providing benefit from various angles to the investors. Also day to day many prospective investors are joining in mutual fund. Hence it shows a kaleidoscopic view.

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