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EMPERICAL OF MUTUAL FUND: INVESTORS' AWARENESS

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Abstract

Establishment of Mutual Funds is a recent development in the capital market. They are the very important financial intermediaries. They introduce various schemes to collect the funds of the society. The funds collected are invested in securities of old and new industrial unit. Mutual fund is a corporation which accepts money from savers and uses the same to buy stock, long-term bonds, short term debt instrument and other securities issued by business or Government units. The mutual funds function as an agent to mobilize the resources from various investors, since the average investor needs the necessary resources, time, knowledge, expertise to participate in the complex and volatile investment market. A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciations realized are shared by its unit holders in proportion to the number of units owned by them.

Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

Keywords Mutual fund, Organization of Mutual Funds, Mutual Fund Schemes, Different modes Of Receiving the Income Earned From Mutual Funds' Investments, Mutual Fund Investing Strategies, Risks Associated With Mutual Funds:-

Objectives of the study

The primary objective of the present study entitled *"EMPERICAL OF MUTUAL FUND: INVESTORS' AWARENESS"* to understand the mutual fund investment and its risk & return. The other objectives of the present research study are:

- To understand the investment pattern in mutual fund investment & the performance on mutual funds.
- To aware investor about different investment schemes.
- To highlights different strategies of investment in mutual fund.
- To aware investors about the risks commonly associated with Mutual fund investment.

Data source

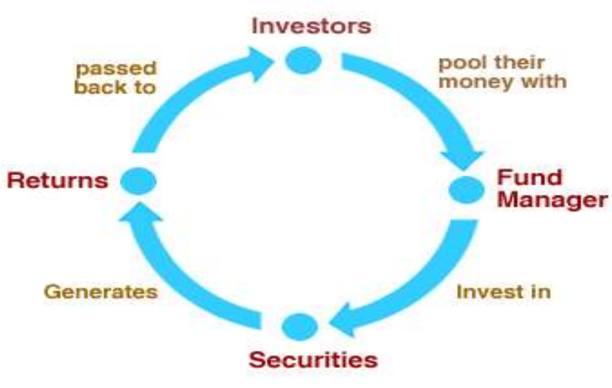
This is a descriptive study wherein the source for the data obtained from secondary sources. The information collected from the various mutual funds brochures of the company as well from similar research articles, journals, magazines and books referred for this study. Data also collected from various websites of financial institution who are player in mutual fund industries.

Introduction

The dictionary meaning of mutual fund is 'Unit Trust'. It should be taken as "Trustees" or the fund left with them by the subscribers and investors. A Mutual Fund is a body corporate registered with the Securities and Exchange Board of India (SEBI) that invest the pooled funds of many shareholders to create a diversified portfolio of securities. Each Mutual fund has a specific investment objective and tries to meet that objective through active portfolio management. A mutual fund is a trust that pools the saving of a number of investor who share a common financial goal. The money thus collected is invested by the fund manager in different types of the securities depending upon the objective of the scheme. These could range from share to debenture to money market instruments. The income earned through these investments and the capital appreciation realized by the scheme is shared by its unit holders in proportion to the number of units owned by them. In the other words, a Mutual Fund allows investors to indirectly take a position in a basket of financial assets. Anybody with an investible surplus of as little as a few thousand rupees can invest in mutual fund.[1]

Mutual Fund is a mechanism for pooling the resources by issuing units to the investors and investing funds in securities in accordance with objectives as disclosed in offer document. Investments in securities are spread among a wide cross-section of industries and sectors thus the risk is reduced. Diversification reduces the risk because all stocks may not move in the same direction in the same proportion at same time. Investors of mutual funds are known as unit holders.[2]

The flow chart below describes the working of a Mutual Fund



The mutual funds normally come out with a number of schemes with different investment objectives which are launched from time to time. Fluctuation in the value of investments is reflected in net asset value (NAV) of the concerned scheme, which is declared by the fund from time to time. Mutual fund schemes are managed by respective Asset Management Companies (AMC). Every AMC assigns a fund manager the duties and responsibilities with regard to the schemes.

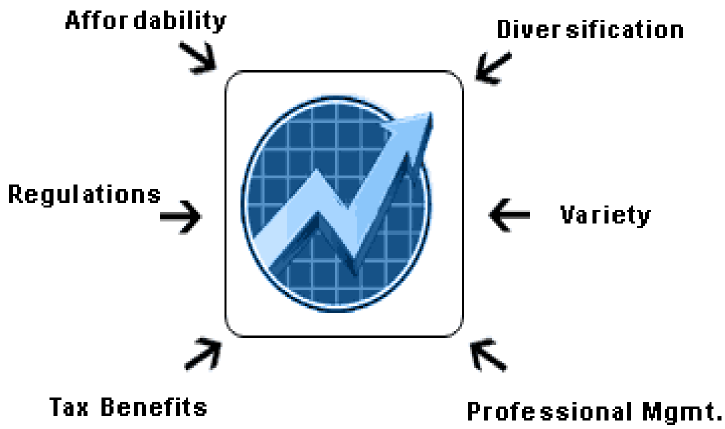
Organization of mutual fund

There are many entities involved and the diagram below illustrates the organizational set up of a mutual fund:

A mutual fund comprises four separate, namely Sponsor, Mutual fund trust, Assets management company (AMC) and Custodian. The sponsor established the mutual fund and gets it registered with SEBI. The mutual fund needs to be constituted in the form of a trust and the instrument of the Act, 1908. The sponsor is required to contribute at least 40% of the minimum net worth of the assets management company. The sponsors appoint the Trustee, AMC and Custodian. Once the AMC is formed, the sponsor is just a stakeholder. The board of trustee manages the mutual fund and the sponsor executed the trust deeds in favour of the trustees. It is the job of the mutual fund trustees to see that schemes floated and managed by the AMC are accordance with the trust deed and SEBI guideline. The AMC if so authorized by the Trust Deed appoints the Registrar and Transfer agent[3].

Advantages of mutual fund

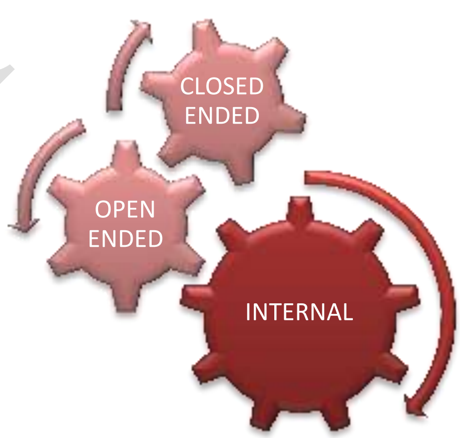
Every investment has its pros and cons. But it’s important to remember that features that matter to one investor may not be important to you. Whether any particular feature is an advantage for you will depend on your unique circumstances[4]. For some investors, mutual funds provide an attractive investment choice because they generally offer the benefit as shown in below figure:



Classification of mutual funds

Mutual funds have introduced many schemes for attracting investors and also collecting their saving. Each scheme has its features and suitability to specific category of investors. Such scheme include the following

(A) By Structure



- **Open-Ended Scheme**

An open-end fund is one that is available for subscription all through the year. These do not have a fixed maturity. Investors can conveniently buy and sell units at Net Asset Value ("NAV") related prices. The key feature of open-end schemes is liquidity[5].

- **Close-Ended Scheme**

A close-ended fund is one which available for subscription for particular period Schemes that have a stipulated maturity period (ranging from 2 to 15 years) are called close-ended schemes. You can invest directly in the scheme at that time of initial issue and thereafter you can buy or sell the units of the scheme on the stock exchange where they are listed[5].

In order to provide tan exit route to the investors, some close ended schemes give you an additional option of selling your units directly to the Mutual Fund through periodic repurchase at *NAV* related prices.

- **Interval Scheme**

These combine the features of open-ended and close-ended schemes. They may be traded on the stock exchange or may be open for sale or redemption during predetermined intervals at NAV related price.

(B) By Investment Objective

- **Growth Scheme**

These funds concentrate only on long run gain i.e. capital appreciation. They do not offer regular income and they Aim to provide capital appreciation over medium to long term. These schemes are not for investors seeking regular income or needing their money back in short term. This scheme is ideal for investor in their prime earning years and investor seeking growth over long term[6].

- **Income Scheme**

This fund aim at generating and providing regular and steady income to investors on a periodical basis. These schemes generally invest in fixed income securities such as bonds and corporate debentures[6].

- **Balance Scheme**

This fund aim at providing a balance mixture of safety, Income and capital appreciation. The strategy of this scheme is to invest in a combination of fixed income and equities. A typical balance fund might have a weighting of 60% equity and 40% fixed income securities[7].

- **Tax Saving Scheme**

These funds offer tax benefits to investors under the Income Tax Act, 1961. Opportunities provided under this scheme are in the form of tax rebates under section 80 C of the Income Tax Act, 1961. They are best suited for long investors seeking tax rebate and looking for long term growth[7].

- **Gilt Scheme**

These funds invest in Central and State Government securities and are best suited for the medium to long-term investors who are averse to risk. Government securities have no default risk[7].

Different modes of receiving the income earned from mutual funds' investments

To cater to different investment needs, Mutual Funds offer various investment options. Some of the important investment options include:

- **Growth Option**

Dividend is not paid-out under a Growth Option and the investor realizes only the capital appreciation on the investment by an increase in NAV.

- **Dividend Payout Option**

Dividends are paid-out to investors under the Dividend Payout Option. However, the NAV of the mutual fund scheme falls to the extent of the dividend payout.

- **Dividend Re-investment Option**

Here the dividend accrued on mutual funds is automatically re-invested in purchasing additional units in open-ended funds. In most cases mutual funds offer the investor an option of collecting dividends or re-investing the same[8].

- **Retirement Pension Option**

Some schemes are linked with retirement pension. Individuals participate in these options for themselves, and corporate's participated for their employees[8].

- **Insurance Option**

Certain Mutual Funds offer schemes that provide insurance cover to investors as an added benefit.

Mutual fund investing strategies

- **Systematic Investment Plan (SIP)**

Here the investor is given the option of preparing a pre-determined number of post-dated cheques in favour of the fund. The investor is allotted units on a predetermined date specified in the offer document at the applicable NAV[9].

- **Systematic Encashment Plan (SEP)**

As opposed to the Systematic Investment Plan, the Systematic Encashment Plan allows the investor the facility to withdraw a pre-determined amount / units from his fund at a pre-determined interval. The investor's units will be redeemed at the applicable NAV as on that day[9].

- **Systematic Withdrawal Plans (SWPs)**

These plans are best suited for people nearing retirement. In these plans, an investor invests in a mutual fund scheme and is allowed to withdraw a fixed sum of money at regular intervals to take care of his expenses

- **Systematic Transfer Plans (STPs)**

They allow the investor to transfer on a periodic basis a specified amount from one scheme to another within the same fund family – meaning two schemes belonging to the same mutual fund. A transfer will be treated as redemption of units from the scheme from which the transfer is made. Such redemption or investment will be at the applicable NAV.

This service allows the investor to manage his investments actively to achieve his objectives. Many funds do not even charge any transaction fees for his service – an added advantage for the active investor.

Risks associated with mutual funds

Investing in Mutual Funds, as with any security, does not come without risk. One of the most basic economic principles is that risk and reward are inseparable. Higher the risk greater the returns/loss and lower the risk lesser the returns/loss. In other words, the greater the potential risk the greater the potential return[10]. The types of risk commonly associated with Mutual Funds are:

Conclusion

A mutual fund is an investment company that creates a bridge between investors and corporate giants. The mutual funds provide an investment options for investors those who are not aware about capital market still they want to invest their surplus in capital market with a small amount of money. A mutual fund is a pure intermediary that pools the saving of a number of investor who share a common financial goal. The money thus collected is invested by the fund manager in different types of the securities. Thus Mutual Fund investment being risk diversified investment option available in financial market. Mutual fund investment helps you to diversify your investment in different financial product which minimizes risk.

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Bio

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