INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

IJRCM

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CONTENTS

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RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

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MUTUAL FUNDS: AN EMERGING TREND IN FINANCIAL SYSTEM

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ABSTRACT

Indian financial system has great impact on their economic development. Financial system plays very important role in every country. This financial system is expected to be healthy and conductive to the economic development. In India financial system is facing much more problems. There are various new trends emerging in Indian financial system regarding mutual fund, share market, foreign direct investment etc., by using these trends India will strengthen their economy at large scale. But now a days India is facing problems because of policy introduced by Govt. For overall development of our country it is necessary to strengthen the Indian financial system which is major contributor to the economic development of the nation. Mutual fund brings new prospective and different view in consideration of GROWTH OF INDIAN financial system.

KEYWORDS
financial system, economic development, policy.

1. INTRODUCTION

The Indian financial system is classified as –
1. The formal (organized) financial system and
2. The informal (unorganized) financial system.

The formal financial system comes under the purview of the Ministry of Finance (MOF), Reserve Bank of India (RBI), Securities Exchange Board of India (SEBI) and other regulatory bodies. The informal financial system consists of:

a. Local brokers,
b. Non-banking financial intermediaries such as finance, investment.

2. COMPONENTS OF FORMAL FINANCIAL SYSTEM

Formal financial system consist of four segments, these are financial institutions, financial markets, financial instruments and financial services.

Financial institutions are intermediaries that mobilize the savings and facilitate the allocation of funds in an efficient manner. Financial institutions are classified as banking and non-banking financial institutions. Banking institutions are creator of credit while non-banking financial institutions are purveyors of credit. Investment institutions in the business of mutual funds (UTI, Public Sector and Private Sector Mutual Funds) and insurance activity (LIC, GIC and its subsidiaries) are also classified as financial institutions. Financial markets enabling participants to deal in financial claims. Money market and capital market are the organized financial markets in India. Money market is for short term securities while capital market is for long term securities. Primary market deals in new issues, the secondary market is meant for trading in existing securities.

3. MUTUAL FUNDS

Mutual fund is a form of collective investment. It is formed by coming together a no. of investors who transfer their surplus funds from investors. The fund adopts a simple technique. A Mutual Fund collects the savings from small investors, invest them in Govt. securities and other cooperate securities to earn income through interest and dividends.

A small investor has to face many difficulties in the share market .He is not in a position to get professional advice from the financial experts. By considering these difficulties mutual funds have come to boon to a small and medium investors.

Every investor invested small amount in the mutual fund and each fund is devided into small fraction called “Units” . Hence mutual fund enables millions of small investors to participate in and get the benefit of the capital market growth with enjoying high portfolio investment.

4. DEFINITION

SEBI DEFINES:

“A fund established in the form of a trust to raise money by the trustees, for investing in securities in accordance with the regulations.”

Various schemes of Mutual Funds:

1. Open ended mutual funds
2. Close ended mutual funds
3. Interval fund
4. Income fund
5. Growth fund
6. Balanced fund
7. Money market mutual fund
8. Taxation fund
9. Loan fund
10. Industry specific fund

The financial investment avenues are classified under the following heads:

1. Corporate Shares, Debentures, Deposits, etc.
2. Bank Deposits and Schemes
3. UTI and Mutual Fund Schemes.
4. Post Office Deposits/Certificates, etc
5. Government and Semi-Government Bonds/Securities

The Indian capital market has been increasing tremendously during last few years. With the reforms of economy, reforms of industrial policy, reforms of public sector and reforms of financial sector, the economy has been opened up and many developments have been taking place in the Indian moneymarket and capital market.

In order to help the small investors, mutual fund industry has come to occupy an important place. The main objective of this paper is to examine the importance and growth of mutual funds and evaluate the operations of mutual funds and suggest some measures to make it a successful scheme in India.

5. IMPORTANCE OF MUTUAL FUND

The mutual fund industry has grown at a phenomenal rate recently. The following are the importance of mutual funds.

1. Channelizing Saving for investment
2. Offering wide Portfolio Investment
3. Providing better yields
4. Providing Research services
5. Introducing Flexible investment schedule
6. Providing greater liquidity
7. Providing expertised services at low cost
8. Offering tax benefit
9. Simplified record keeping
10. Supporting capital market
11. Promotes industrial development
12. Acting as Substitute for Initial Public Offering (IPO)

In short, a mutual fund creates awareness among urban and rural middle class people about the benefits of investment in capital market, through profitable and safe avenues. Mutual fund could be able to make up a large amount of the surplus funds available with these people.

The mutual fund attracts foreign capital flow in the country and secures profitable investment avenues abroad for domestic savings through the opening of off shore funds in various foreign investors. Lastly another notable thing is that mutual funds are controlled and regulated by S E B I and hence are considered safe. Due to all these benefits the importance of mutual fund has been increasing.

6. GROWTH TREND OF MUTUAL FUND

Opening of the mutual fund industry to the public sector banks and insurance companies, led to the launching of more and more of new schemes.

The mutual fund industry in India has grown fast in the recent period. The performance is encouraging especially because the emphasis in India has been on individual investors rather in contrast to advanced countries where mutual funds depend largely on institutional investors. In general, it appears that the mutual fund in India have given a good account of themselves so far.

UTI's annual sale of units crossed Rs.1000 crores mark in 1986 to 87, 2000crores mark in 1987-88 and reached Rs.5500 crores mark in 1989 to 90.During 1990 to 91 on account of decline of corporate interest,, sales declined to Rs.4100 crores though individual sales increased over its preceding year. LIC MF has concentrated on funds which includes life and accident cover. GIC MF provide home insurance policy. The bank sponsored mutual fund floated regular income, growth and tax incentives schemes. Together there in mutual fund service more than 15 million investors with UTI alone holds for 13 million unit holding accounts. Magnum Regular Income Scheme1987 assured a return of 12 percent but gave 20 percent dividend in 1993, UTI record 26 percent dividend for 1992 to 93 under the unit 1964 scheme.Magnum Tax saving scheme 1988 to 89 did not promise any return butdeclared 14 percent dividend in 1993 and recorded a capital appreciation of15 percent in the first year. Equity oriented scheme have earned attractive returns. Especially since early 1991 there has been a steady increase in the number of equity oriented growth funds. With the boom of June 1990 andthen again 1991 due to the implementation of new economic policies towards structure of change the price of securities in stock market appreciated considerably. The high rate of growth in equity price led to a high rate of appreciation in the net asset value of the equity oriented funds for which investors started changing their preferences from fixed income funds to growth oriented or unfixed income funds. That is why more equity oriented mutual funds were launched in 1991. Master share provide a respective dividend of 18 per cent in 1993, can share earned a dividend of 15 percent in 1993. In

Short today mutual funds have started a positive role in the countries saving revolution.

7. CONCLUSION

With the structural liberalization policies no doubt Indian economy is likely to return to a high grow path in few years. Hence mutual fund organizations are needed to upgrade their skills and technology. Success of mutual fund however would bright for the overall economic development of the country as it provides great potential to the Indian economy.

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