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MUTUAL FUND: AN AVENUE TO INVESTORS IN INDIA

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ABSTRACT

In today's competitive environment, various types of investment avenues are available to investors. An investor invests in various types of investment depending upon his requirements. Mutual fund industry has grown drastically over the years. The start of Mutual Funds gave opportunity for investors in hope of high returns from their investments. There are various schemes of mutual funds in India. If one invests for a long term, one can enjoy the benefits of rupee cost averaging. By investing in various schemes (tax saving schemes), one can claim tax benefits under section 80C of the Income Tax Act. Mutual Funds provide various types of schemes depending on the types of investors. Whether the investor is a risk taking investor or a risk-averse investor, one can find various schemes suitable to their needs. The mutual fund industry in India started in 1963 with the formation of UTI (Unit Trust in India) at the initiative of Government of India and Reserve Bank of India.

KEYWORDS

mutual funds, investors, net asset value, fund sponsor.

INTRODUCTION

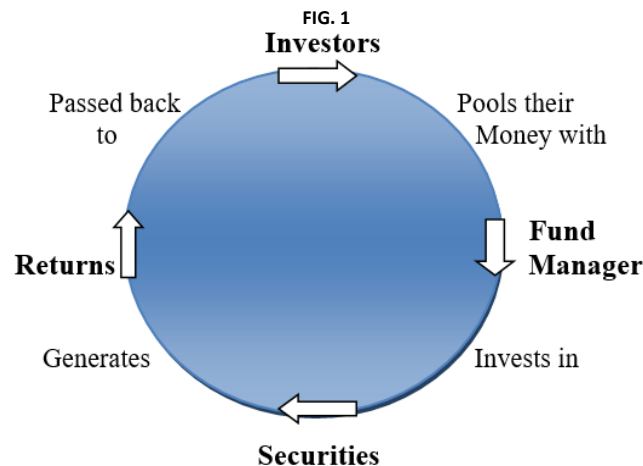
The mutual fund industry in India started in 1963 with the formation of UTI (Unit Trust in India), at the initiative of Government of India and Reserve Bank of India. The emergence of mutual funds changed the way the world invested their money. It gave an opportunity for investors to invest in funds in hope of high returns from their investments.

There are various investment avenues available for investors like Savings Account, Public Provident Fund, Postal Saving Deposits, Shares, Debentures and more. Mutual funds are launching variety of financial products trying innovations in designing mutual funds portfolio in order to meet the customers' expectations. A mutual fund is an investment fund that pools money from many investors to invest in diversified securities such as stocks, bonds, money market instruments and similar assets. The performance of a particular scheme of a mutual fund is denoted by Net Asset Value (NAV).

OBJECTIVE

The objective is to know the various investment avenues available in mutual funds and factors influencing investors in selection of fund.

MUTUAL FUND PROCESS



Investors with common financial objectives pool their money and get mutual fund units for the sum contributed to the pool. The money is invested into shares, debentures and other securities by the fund manager. The fund manager realizes gains or losses and collects dividends or interest income. This is then passed on to the investors in proportion of the number of units held by them.

Mutual funds invest the money collected from the investors in securities markets. In simple words, Net Asset Value is the market value of the securities held by the scheme. Since market value of securities changes every day, NAV of a scheme also varies on day to day basis. The NAV per unit is the market value of securities of a scheme divided by the total number of units of the scheme on any particular date.

HOW IS MUTUAL FUND SET UP

A mutual fund is set up in the form of a trust, which has Sponsor, Trustees, Asset Management Company (AMC) and Custodian.

- The Fund Sponsor-** A Sponsor establishes the Mutual Fund, along with any individual/body corporate. The Sponsor's liability is restricted to his contribution. Sponsor must contribute a minimum 40% to the net worth of AMC. The sponsor has to register the mutual fund with SEBI.
- Trustees-** Trustees manage the trust and are responsible to the investors in the mutual funds. They are the primary guardians of the unit-holders funds and assets. Trustees ensure that the activities of the mutual fund are in accordance with Securities Exchange Board Of India (SEBI) regulations, 1996. They check that the Asset Management Company (AMC) has proper systems and procedures in place. All schemes floated by the AMC have to be approved by the trustees. Trustees review and ensure that the net worth of the AMC is as per the regulatory norms. They furnish a report on the activities of AMC to SEBI.
- Custodian-** Custodian is responsible for the possession, handling and safekeeping of all securities purchased by the Mutual Fund.
- Asset Management Company (AMC)-** The Asset Management Company is responsible for managing the investments for the various schemes operated by the Mutual Fund. The AMC employs professionals to manage the funds. The AMC may be assisted by a custodian and a registrar.

AMC are obliged to make investments in compliance with Securities Exchange Board of India regulations.

TYPES OF MUTUAL FUNDS

The mutual fund industry in India has developed drastically. Various types of mutual funds categories are designed to allow investors to choose a scheme based on the risk they are willing to take, their goal, and the investment term etc. The following are the important types of mutual fund scheme:

A) BY MATURITY PERIOD

1. Open Ended Fund
2. Closed Ended Fund

B) BY INVESTMENT OBJECTIVE

1. Growth/Equity Fund
2. Debt/Income Fund
3. Balanced Fund
4. Money Market Schemes
5. Gilt Fund

C) OTHER SCHEMES

1. Tax Saving Schemes

D) SPECIAL SCHEMES

1. Sector Fund
2. Index Fund

A) BY MATURITY PERIOD

Mutual funds can be classified into Open Ended Fund and Closed Ended Fund depending on its maturity period.

1. Open Ended Fund- It is a fund that allows investors to buy or sell on a continuous basis at any point of time. These funds don't have a fixed maturity period. Liquidity is the key feature of Open Ended Fund. Investors can buy and sell units at Net Asset Value related prices.

2. Closed Ended Fund- It has a stipulated maturity period which is open for subscription only during a specified period (at the time of launch of the scheme). The fund is open for subscription at the time of the initial public issue and thereafter they can buy or sell the units on the stock exchanges where the units are listed.

B) BY INVESTMENT OBJECTIVE

Mutual Funds can also be classified based on investment objective.

1. Growth /Equity Fund- The aim of this fund is to provide capital appreciation in the long run. Such funds have high risk. Investors who would like to take risk can invest in these securities and expect long term benefits can invest in these schemes. This fund provides various schemes to the investors and the investor can choose the option according to their choice.

2. Debt/Income Fund- The aim of this fund is to provide steady and regular income. Although capital appreciation is low, these are ideal for investors who would like to take low risk and expect steady income. These funds are invested in securities such as debentures, government securities and other debt instruments. Such funds are less risky compared to equity funds. But opportunities of capital appreciation are limited in such funds.

3. Balanced Fund- The aim of this fund is to provide both growth and income. These funds are invested in both equities and fixed income securities. These funds are ideal for investors looking for moderate growth. These funds are less risky when compared to Equity Fund.

4. Money Market Schemes- These schemes invest in money market instruments like treasury bills, certificates of deposits, commercial paper and interbank call money. The main aim of these funds is to provide easy liquidity, moderate income. These funds are preferable for individual investors and corporate investors as a means to park their surplus funds for short period.

5. Gilt Fund- These funds invest exclusively in government securities. Since gilt funds only invest in government securities, investors are protected from credit risk. They are appropriate for risk averse and conservative investors.

C) OTHER SCHEMES

1. Tax Saving Scheme- These funds provide tax benefits to the investors under Section 80C of the Income Tax Act of India. e.g. Equity Linked Savings Schemes (ELSS). This is an equity diversified scheme and investors enjoy both capital appreciation as well as tax benefits. Investors can opt for dividend and growth options. These are close ended schemes with a lock in period of three years.

D) SPECIAL SCHEMES

1. Sector Funds- Sector funds are those that invest only in the equity of those companies existing in a specific sector, as laid down in the funds offer document. For example, a technology fund would invest only in technological companies.

2. Index Fund- An index fund follows a passive investing strategy called strategy. It involves tracking an index say for example, the Sensex or the Nifty and builds a portfolio with the same stocks in the same proportions as the index.

ADVANTAGES OF MUTUAL FUNDS

The following are advantages offered by mutual funds to all the investors:

1. **Offering wide portfolio of investments-** Investors can enjoy the wide portfolio of the investment held by the mutual fund.
2. **Diversification of risk-** It diversifies the risk by investing in a variety of portfolio of securities which cannot be done by small and medium investors.
3. **Offering Tax benefit-** Certain funds offer tax benefit to investors.
4. **Professional Management-** The funds are managed by experts who have adequate experience in the field of investment. The investors are assured of quality service in their best interest.
5. **Choice of Schemes and ensures affordability-** Mutual funds offers a variety of schemes to suit the needs of investors. Even a very small investor can invest in mutual funds.
6. **Liquidity-** Units can be sold to the fund at any time at the Net Asset Value and thus, quick access to liquid cash is assured.
7. **Regulations-** All mutual funds are required to register with SEBI (Securities Exchange Board of India) that ensures protection of investors. All the operations of mutual funds are monitored by the SEBI.
8. **Transparency-** Mutual Fund Company provides information on the value of investment invested in mutual funds to investors at regular intervals. Even mutual funds companies are reviewed by various publications and rating agencies, making it easy for investors to compare fund to another.
9. **Flexibility-** Mutual funds provide various types of schemes depending on the types of investors. An investor can opt for Systematic Investment Plan, Systematic Withdrawal Plan etc. to plan cash flow requirements.
10. **Economies of Scale-** Investment done through mutual funds are cheaper compared to investing directly in capital markets which involve higher charges. The pooled money from investors ensures that mutual funds enjoy economies of scale. This allows investors to access high risk markets and also ensure control over cost.

LIMITATIONS OF MUTUAL FUND

1. **Subject to market risk-** Mutual funds are subject to market risk.
2. **No guarantee-** Mutual fund don't give any guarantee of return to the investors. It depends on the stock market. A fall in the stock market triggers a fall in the value of the mutual fund shares.
3. **Unethical practices may be adopted-** Mutual fund manager may adopt unethical practices to boost the performance of the various schemes.
4. **Fees and Expenses-** Some of Mutual fund charges operating and management fees to meet the daily expenses.

5. **Management Risk-** The investment depends on the selection of the mutual fund portfolio by the fund manager. If things don't go as the expectations, the investments may earn enough money.

These are the challenges that can be averted through proper study and analysis.

CONCLUSION

Investor always tries to maximize the returns and minimize the risks. Mutual Fund provides a variety of schemes to the investors depending on their requirements. With the emergence of tough competition, mutual funds are launching various schemes to meet the requirements of the investors. Investors who would like to earn regular income should invest in income plans. A mutual fund is required to be registered with (Securities Exchange Board of India) which regulates securities markets before it can collect funds from the public. SEBI formulates policies and regulates the mutual funds to protect the interest of the investors.

The Indian mutual fund industry is growing rapidly and this is reflected in the increase in Assets under management of various fund houses. Mutual fund investment is less risky than directly investing in stocks and is therefore a safer option for risk averse investors. The investors may seek advice from experts and consultants including agents and distributors of mutual funds schemes while making investment decisions.

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