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A STUDYON MUTUAL FUNDS WITH REFERENCE TO INDIAN MARKET SCENARIO

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Abstract

The mutual fund investments have emerged as important players in the Indian equity market in the recent past. A mutual fund is a professionally managed investment fund that pools money from many investors to purchase securities. These investors may be retail or institutional in nature.Mutual funds have advantages and disadvantages compared to direct investing in individual securities. The primary advantages of mutual funds are that they provide economies of scale, a higher level of diversification, they provide liquidity, and they are managed by professional investors. On the negative side, investors in a mutual fund must pay various fees and expenses.

The most obvious impact of mutual fund trading onstock prices is the immediate increase or decrease it generates. Since stock prices are the composite result of all the day's investor activity, any huge purchase or sale of an individual stock naturally has a large impact on the day's trading range. An equity fund is a mutual fund that invests principally in stocks. It can be actively or passively (index fund) managed. Equity funds are also known as stock funds. Stock mutual funds are principally categorized according to company size, the investment style of the holdings in the portfolio and geography.

Key words; Stock Price, Equity Fund, Mutual Fund, Portfolio, Investors.

1. Introduction

A mutual fund is a financial intermediary that pools the savings of investors for collective investment in a diversified portfolio of securities. A fund is “mutual” as all of its returns,

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minus its expenses, are shared by the fund's investors.

The Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 defines a mutual fund as a 'a fund estab-lished in the form of a trust to raise money through the sale of units to the public or a section of the public under one or more schemes for investing in securities, including money market instruments'.

According to the above definition, a mutual fund in India can raise resources through sale of units to the public. It can be set up in the form of a Trust under the Indian Trust Act. The definition has been further extended by allowing mutual funds to diversify their activities in the following areas:

- Portfolio management services
- Management of offshore funds
- Providing advice to offshore funds
- Management of pension or provident funds
- Management of venture capital funds
- Management of money market funds
- Management of real estate funds

A mutual fund serves as a link between the investor and the securities market by mobilizing savings from the investors and investing them in the securities market to generate returns. Thus, a mutual fund is akin to portfolio management services (PMS). Although, both are conceptually same, they are different from each other. Portfolio management services are offered to high net worth individuals; taking into account their risk profile, their investments are managed separately

Objectives of the Study

1.To study the Over view mutual fund in India

2.To Estimate future performance of Different Mutual Funds

3.To Study the Manager Role in Mutual Funds

Research Methodology:

This is a Conceptual Study based on the Secondary data source. The Secondary data is used to high light the conceptual analysis & review of literature. In addition to those books articles, journals.

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Fund types

Index fund

Index funds invest in securities to mirror a market index, such as the S&P 500. An index fund buys and sells securities in a manner that mirrors the composition of the selected index. The fund's performance tracks the underlying index's performance. Turnover of securities in an index fund's portfolio is minimal. As a result, an index fund generally has lower management costs than other types of funds.

Growth fund

A growth fund invests in the stock of companies that are growing rapidly. Growth companies tend to reinvest all or most of their profits for research and development rather than pay dividends. Growth funds are focused on generating capital gains rather than income.

Value fund

This is a fund that invests in "value" stocks. Companies rated as value stocks usually are older, established businesses that pay dividends.

Sector fund

A fund that invests in one area of industry is called a sector fund.[2] Most sector funds have a minimum of 25% of their assets invested in its specialty. These funds offer high appreciation potential, but may also pose higher risks to the investor. Examples include gold funds (gold mining stock), technology funds, and utility funds.

Income fund

An equity income fund stresses current income over growth. The funds objective may be accomplished by investing in the stocks of companies with long histories of dividend payments, such as utility stocks, blue-chip stocks, and preferred stocks.

Option income funds invest in securities on which options may be written and earn premium income from writing options. They may also earn capital gains from trading options at a profit. These funds seek to increase total return by adding income generated by the options to appreciation on the securities held in the portfolio.

Balanced fund

Balanced Funds invest in stocks for appreciation and bonds for income. The goal is to provide a regular income payment to the fund holder, while increasing its principal...

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Asset allocation fund

A fund that owns stocks and a substantial amount of assets other than stocks is considered an asset allocation fund. These funds split investments between growth stocks, income stocks/bonds, and money market instruments or cash for stability. A fund that switches between asset classes based on predictions of future returns is called a tactical allocationfund. Other funds may maintain a more or less constant proportion of assets, due to the belief that such prediction is not reliable.

Fund of funds

"Fund of funds" implies that the assets of a fund are other funds. The other funds may be stock funds, in which case the original fund can be called "fund of stock funds". See fund of funds.

Hedge funds

"Hedge fund" is a legal structure. Hedge funds often trade stocks, but may trade or invest in anything else depending on the fund. This is done to reduce the risk of investments in stocks.

IMPACT OF STOCK MARKET MOVEMENTS ON THE MUTUAL FUNDS

When the stock market is crashed, the investors face huge losses due to the falling prices of the shares they have purchased. Mutual fund too invests in the stocks and shares traded in the exchange, and thus the values of the funds are also reduced. But does they affect the investors? The answer to this question can't be given in a word.Mutual funds India have investments in several stocks and other instruments due to which the capital of investors invested is diversified. When the market crashes, it may not be necessary that the prices of the stocks in which the fund has investment get reduced. There is a possibility that the prices fall for such stocks in which your mutual funds don't have investment. Accordingly, believing that with the falling stock market your fund's value declines is a myth.

Timing the market in case of mutual fund investments by stopping and starting SIPs with market fluctuations won't work for you ever. Mutual funds are planned investments which work on some specific principles and trading cannot work on them. If you time the markets unnecessarily, you may lose the benefits of compounding and rupee-cost averaging.

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Stock Market & Mutual Funds- Which is Better?

This is a common question asked by various investors in India. The query can be resolved with the following factors which prove mutual funds are a better option than direct investments in the stock market.

1. Diversification: Mutual Funds invest the pooled capital of the investors in different investment avenues to reduce the risk exposure to one investment. This way, the risk is minimised, and returns are increased as the earnings are gained from several sectors, companies, or instruments.

2. Transparency: The MF industry is managed by the SEBI and AMFI regulations and thus, assure safety and security of the capital. Further, the investors of the mutual funds are given adequate knowledge and regular updates regarding their investments.

3. Economies of Scale: Mutual Funds take the advantage of the buying and selling size and reduce the cost of the transaction for the investors. This way, the investors also gain the economies of scale to earn a good income on their investments.

4. Divisibility: One cannot buy the shares of some major companies whose cost is very high. The mutual fund allows the investors to buy such funds as they invest money as the whole in such companies and investors gain returns as per their share in the investment.

5. Liquidity: The mutual funds allow the investors to redeem or withdraw their funds whenever they require which is credited to their bank accounts automatically. Accordingly, the investors do not get their funds locked until maturity.

6. Professional Management: In the case of the direct investments in the stock, the investors need to gain knowledge of trading or hire a highly paid advisor. But in mutual funds, the fund managers who are professionally trained and experts in managing funds take care of your money and invest them in the best investment opportunities.

How to Evaluate Mutual Fund Performance

a. Define the Investment Goals

What is the purpose of my investment? Answer to this should be the foundation of your mutual fund choices. For instance, if you want a regular income with capital protection, you can choose to invest in a debt fund. But if you have a higher risk appetite and an aim to

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build your wealth, equities will suit your purpose. So it is important to define your financial goal first and then decide your investment. This also has a crucial role in fund evaluation.

b. Shortlist a few peer Funds to compare

It is difficult to assess a mutual fund in isolation. So, you should always make a small list of comparable funds and constantly compare them. There are many Fintech firms and third party websites that offer free mutual fund screener tools.

c. Check the historical Performance Data

Now every mutual fund handbook comes with a disclaimer stating that past performance is no indicator of future performance. However, these data can help you check how the fund has fared across different market cycles. Consistency can also shed light on the skill of the fund manager. In short, it will be easier for you to find a fund with lower risks but higher returns.

d. Fee Structure of the Fund

A mutual fund company charges you for its services and expertise. Some funds require deft management and quick decisions on whether to buy, sell or hold on to an asset. Please remember that a fund with a higher fee is automatically better. Do check out other parameters too before choosing.

e. Risk-Adjusted Returns

Every fund expects certain risks, related to the market and the industry. When a fund strategizes in such a way that they make more returns against expected risks, we call them risk-adjusted returns.

f. Performance against Index

Indexes like Nifty, BSE Sensex, and BSE 200 set benchmarks, and all fund performances are evaluated on this basis. Comparing different timelines against the benchmark as well as peers can be insightful. A well-managed fund won't fall too hard during a market low.

How often to Evaluate Fund Performance

Market is subject to fluctuations. However, that doesn't mean you need to assess the fund performance on a daily basis. Ideally, you should evaluate your fund every six months to a year depending on the tenure of the investment. Evaluating the funds in a shorter period does not give an accurate insight into the performance of your investments. If all this sounds too

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much, you may invest in regular funds. As qualified intermediaries, they advise you to invest in funds based on your financial goals and risk profile.

4. Financial Ratios & Fund Performance

While you may have taken due diligence and advice before investing, you still need to track the performance of your funds. The easiest way to do it is by using the Fund Fact Sheet. In simple terms, fund fact sheet shows the performance of all the schemes managed by your fund house including your investment. It is essential that you compare these financial ratios with the mutual fund schemes in the same category to understand where your fund stands.

a. Alpha

The fund's Alpha gives an overview of the fund manager's skills and strategies, and how they fared in the past. It should always be higher than the expense ratio of the fund. Additionally, your fund's alpha needs to be higher than the peers which are at the similar level of beta.

b. Expense Ratio

This is essentially the fee for the fund house for managing your mutual fund. Expense ratio reflects the value-for-money aspect of a fund. It consists of fund management charges and all the other costs related to fund management. It impacts your ultimate take-home returns.

c. Benchmark

It is always advisable to compare the fund performance against the benchmark. The benchmark acts as a standard for funds' performance. If your fund is outperforming the benchmark consistently, it is a sign that the fund is doing well. You can also compare the average return during a specific time frame with its peer funds in the same category.

d. Portfolio Holdings

Look for considerable changes and probable overlapping in the portfolio holdings. The fund needs to hold good quality stocks which have a lower Price to Earnings-per-share (P/E) Ratio vis-a-vis Price to Book Value (P/B) ratio. Additionally, ensure that the fund is investing as per its investment objective. For instance, fund having a high portfolio turnover ratio vis-a-vis lower returns is a bad indicator.

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e. Sharpe Ratio

This ratio shows how much extra return you receive for the additional risks you undertake. It is a rule of thumb that higher risks must be compensated more. And you too deserve a reward (extra returns) for the added volatility. Sharpe ratio tells you how much exactly should be that reward.

ROLE OF A FUND MANAGER

As an investor, when you choose to invest in a mutual fund, it involves building a portfolio of securities. It is the fund managers who, based on research and analysis, make the decisions pertaining to buying and selling. Your portfolio can be active or passive. If your portfolio is passively managed, it is based on an established index and the components are chosen by keeping in mind the underlying index. In case of an actively managed portfolio, the fund manager picks the components of the portfolio. These fund managers play a decisive role in the performance of active mutual funds.

2. Duties of a Fund Manager

1. **Meeting the reporting requirements**

Mutual fund managers have to design funds keeping in mind the reporting standards as per the regulatory guidelines. The building of a fund takes into account the objectives of the investors, the strategies, risks, expenses and various policies. Fund managers are responsible for ensuring that the investors are aware and abide by these details and rules. It is also the responsibility of the fund manager to make sure that all the documents are furnished on time and in accordance with the laws and regulations.

2. **Complying with Regulatory Authorities**

The operations of the funds must happen in line with the rules set out by the governing body like the Securities and Exchange Board of India, and other relevant authorities. These regulations cover all aspects starting from signing clients to handling the redemptions. Fund managers are answerable to legislators, and investors in case of non-compliance.

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3. **The Protection of Wealth**

It is the duty of the fund managers to protect the wealth and money of the investors. It is a given that funds are subject to some risks to generate returns and to grow, but they must not be subjected to reckless risk-taking. The decision of the fund manager with regards to the buying or selling of assets must be done post extensive research and due diligence. To protect the wealth of the investors, the manager must, if need be, employ investigations into the company in question, use risk management techniques to evaluate the investments, etc. To address risk, fund managers have to ensure that there is adequate diversification in asset portfolios.

4. **Monitor the growth and performance of the fund**

The decision of where to invest is the fund managers call and this decision is governed by regulations and the expectations and objectives of the investors. The fund managers are judged based on how well their funds perform and how they deliver growth that is above the interest rates and inflation rate. This justifies the risk they take for investing.

5. **Oversight and Hiring**

With the responsibility of managing funds being extensive, fund managers have to get assistance from various professionals and even firms in order to deliver. Certain duties like issuing annual reports, getting capital, negotiating with brokers, etc. are outsourced. This way the fund managers are able to transfer some of the regulation related responsibilities to a third party. But ultimately it is still the fund manager alone who is responsible for the how the funds fare.

How Mutual Funds Affect Stock Prices

In fact, because of the size of their investments, mutual funds can have a huge impact on stock prices, in both the short and long term. Mutual fund trading can activity push stock prices up or down on any given day, and the herding effect of mutual funds and other large-scale institutional investors can create long-lasting trends that influence a stock's price over time.

Institutional Herding

A less obvious effect of mutual fund trading on stock prices is that of institutional herding. When one mutual fund buys or sells a security, it is highly likely that others will follow suit,

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if the security in question fits their stated investment goals.This effect is largely due to a crowd mentality among investors of all experience levels. When one fund manager makes a move, especially a bold one, other managers begin to fear that they have missed out on key information. The fear of loss is generally greater than the desire for reward, so fund managers tend to execute the same trades in the same securities to avoid missing out on whatever lucrative opportunities their competitors are capitalizing on. This effect is called herding, and it serves to exacerbate the impact of mutual fund trading on stock prices by multiplying the number of identical institutional trades happening at the same time.

Long-Term Trends

Because many mutual funds are designed to employ a buy-and-hold investing strategy, they have the power to influence stock prices over the long term. When individuals trade stocks, they tend to push the price up and then bring it back down by selling relatively quickly. The impact of these trades is essentially neutral in the long term. However, since mutual funds can create such large price changes and hold their investments for long periods, they can create long-term bullish trends. In addition, when funds choose a stock to invest in for the long run, they tend to increase their holdings gradually over time. The higher the price goes, the greater the appeal. This consistent increase in mutual fund interest further bolsters the bullish growth of the stock.In addition, the investment community knows that mutual funds investigate potential trades rigorously, lending additional credibility to fund trading activity. A fund investment indicates that the stock has passed some rigorous vetting processes, while a sale indicates the fund's professional managers no longer have confidence in the issuing company.

If a mutual fund makes a large investment in ABC, for example, the immediate effect is that stock price goes up. However, if the fund holds ABC rather than selling right away, this effect is not neutralized, especially if the fund continues to increase its investment. The increase in ABC's price and the implied fund endorsement signals to other investors that the stock is doing well and may be gearing up for a bullish run. This encourages both institutional and individual investors to buy the stock, pushing the price up further. Essentially, the immediate and sustained impact of mutual fund investments can create the

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opportunity for a self-fulfilling bullish trend. Investors think the price will increase, and their subsequent investments, in turn, make that increase a reality.

Conversely, when mutual funds sell off large holdings, the price drop can create uncertainty in the stock market, exacerbated by the fund's vote of no-confidence in the issuing company. Other investors may begin to sell their shares to avoid losses, actualizing the perceived bearish trend.

Findings:

1. Mutual fund play vital role in stock market.A mutual fund is a professionally managed investment fund that pools money from many investors to purchase securities. These investors may be retail or institutional in nature. Mutual fundshave advantages and disadvantages compared to direct investing in individual securitie
2. A fund manager is responsible for implementing a fund's investing strategy and managing its portfolio. ... The fund manager monitors market, economic trends and track securities in order to make informed investment decisions

Suggestion:

1. Mutual fund should give emphasis to technology wave. It will bring flexibility and convenience to investors. It will widen the reach of mutual fund. Advantages of technology wave include lower distribution cost through on line transaction more customized and personal advice to customer
2. Mutual fund industry should focus to mobilize the saving of the semi- urban and rural investors. The growth of the industry thus depends on the strong and well-spread intermediary chain

Conclusion

A mutual fund brings together a large group of people and invests their aggregated money in stocks, bonds, and other securities. There are many, many types of mutual funds. You can classify funds based on asset class, investing strategy, region, etc.Mutual funds are easy to buy and sell. Conclusion on this paper role of fund manager play vital role in mutual fund it will helpful for making best portfolio of securities. It is the fund managers who, based on research and analysis, make the decisions pertaining to buying and selling

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