A PROJECT REPORT ON

“INVESTORS PREFERENCES TOWARDS MUTUAL FUNDS”

A Project Submitted to

University of Mumbai for Partial Completion of the Degree

of Bachelor in Commerce (Banking and Insurance)

Under the Faculty of Commerce

By

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T.Y.B.B.I (SEMESTER – VI)

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Under the Guidance of

‘ASST. PROF. DR. KISHOR CHAUHAN’

JNAN VIKAS MANDAL’S

Mohanlal Raichand Mehta College of Commerce

Diwali Maa College of Science

Amritlal Raichand Mehta College of Arts

Dr. R.T. Doshi College of Computer Science

NAAC Re-Accredited Grade 'A+' (CGPA : 3.31) (3rd Cycle)

Sector-19, Airoli, Navi Mumbai, Maharashtra 400708

FEBRUARY, 2024.

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CERTIFICATE

This is to certify that **MS.____** has worked and duly completed his Project work for the degree as Bachelor in Commerce (Banking and Insurance) under the Faculty of Commerce in the subject of **Banking** and her project is entitled, "____". Under my supervision.

I further certify that the entire work has been done by the learner under my guidance and that no part of it has been submitted previously for any Degree or Diploma of any University.

It is her own work and fact reported by her personal finding and investigations.

Guiding Teacher,

ASST. PROF. DR. KISHOR CHAUHAN.

Date of submission:

DECLARATION

I the undersigned **MS.ROSHNI NARESH PATIL** here by, declare that the work embodied in this project work titled **“INVESTORS PREFERENCES TOWARDS MUTUAL FUNDS”**, forms my own contribution to the research work carried out by me under the guidance of **ASST. PROF. DR. KISHOR CHAUHAN** is a result of my own research work and has been previously submitted to any other University for any other Degree/ Diploma to this or any other University.

Wherever reference has been made to previous works of others, it has been clearly indicated as such and included in the bibliography.

I, here by further declare that all information of this document has been obtained and presented in accordance with academic rules and ethical conduct.

(ROSHNI NARESH PATIL)

Certified by:

ASST. PROF. DR. KISHOR CHAUHAN.

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To list who all have helped me is difficult because they are so numerous and the depth is so enormous.

I would like to acknowledge the following as being idealistic channels and fresh dimensions in the completion of this project.

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I would like to thank my **College Library**, for having provided various reference books and magazines related to my project.

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ABSTRACT

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There are a large number of investment available today. To make our lives easier we would classify or group them. In India, numbers of investment avenues are available for the investors. Some of them marketable and liquid able while others are non-marketable and some of them also highly risky while others are almost risk less. The people has to choose Proper Avenue among them, depending upon his specific needs, risk preferences, and expected. Some of the investment avenues can be broadly categized such has bank deposits, Fixed Deposits, PPF, NSC, post office saving, Govt. Securities, Equity Share Market, Life Insurance, Corporate Bonds and debentures, Real Estate, Gold and silver. A number of investment avenues in India depend on the size of investment and financial objectives. These avenues of investments should be wisely selected by an investor as we all knowthat saving and investing are the sole pillars of financial stability.

A mutual fund is a scheme in which several people invest their money for acommon financial cause. The collected money invests in the capital market and the money, which they earned, is divided based on the number of units, which they hold.

The mutual fund industry started in India in a small way with the UTI Act creating what was effectively a small savings division within the RBI. Over a period of 25 years this grew fairly successfully and gave investors a good return, and therefore in 1989, as the next logical step, public sector banks and financial institutions were allowed to float mutual funds and their success emboldened the government to allow the private sector to foray into thisarea

The advantages of mutual fund are professional management, diversification, and economies of scale, simplicity, and liquidity.

The disadvantages of mutual fund are high costs, over-diversification, possible tax consequences, and the inability of management to guarantee a superior return.

A code of conduct and registration structure for mutual fund intermediaries, which were subsequently mandated by SEBI. In addition, this year AMFI was involved in a number of developments and enhancements to the regulatory framework.

INTRODUCTION

Chapter-1

What Is Investment?

The money you earn is spent and the rest saved for meeting future expenses. Instead of keeping the saving idle you may like to use savings in order to get returns on it in the future. This is called investment.

Why should one invest?

One needs to invest to:

- Earn return on your idle resources
- Generate a specified sum of money for a specific goal in life
- Make a provision for an uncertain future

One of the important reasons why one needs to invest wisely is to meet the cost of inflation. Inflation is the rate at which the cost of living increases. The cost of living is simply what it costs to buy the goods and services you need to live. Inflation causes money to lose value because it will not buy the same amount of good or a service in the future as it does now or did in the past.

When To Start Investing:

The sooner one start investing the better. By investing early you allow your investments more time to grow, whereby the concept of compounding increases your income, by accumulating the principal and interest or dividend earned on it, year after year. The three golden rules for all investor are:

- Invest early
- Invest regularly
- Invest for long term and not short term

Investment Options Available:

There are a large number of investment available today. To make our lives easier we would classify or group them. In India, numbers of investment avenues are available for the investors. Some of them marketable and liquid able while others are non-marketable and some of them also highly risky while others are almost risk less. The people has to choose Proper Avenue among them, depending upon his specific needs, risk preferences, and expected. Investment avenues can broadly categories under the following heads.

1. Saving account
2. Bank and fixed deposits
3. PPF
4. NSC
5. Post office savings
6. Government securities
7. Equity share market
8. Mutual funds
9. Life insurance
10. Corporate bonds and debentures
11. Real estate
12. Gold/Silver

A number of investment avenues in India depend on the size of investment and financial objectives. These avenues of investments should be wisely selected by an investor as we all know that saving and investing are the sole pillars of financial stability.

INVESTMENT AVENUES:

1. Saving Account

A savings account is an interest-bearing deposit account held at a bank or other financial institution. Though these accounts typically pay a modest interest rate, their safety and reliability make them a great option for parking cash you want available for short-term needs These accounts are one of the most popular deposit for individual accounts. Their account provided cheque facility and a lot of flexibility for deposits and withdrawal of funds from the account.

2. Bank Fixed Deposit:

A fixed deposit (FD) is a financial instrument provided by banks or NBFCs which provides investors a higher rate of interest than a regular savings account, until the given maturity date. It may or may not require the creation of a separate account. It is known as a term deposit or time deposit in India. For a fixed deposit is that the money cannot be withdrawn from the FD as compared to a recurring deposit or a demand deposit before maturity The interest rate varies between 4 and 7.50 percent. The tenure of an FD can vary from 7, 15 or 45 days to 1.5 years and can be as high as 10 years.

Benefits of FD:

• Customers can avail loans against FDs up to 80 to 90 percent of the value of deposits. The rate of interest on the loan could be 1 to 2 percent over the rate offered on the deposit.

• Residents of India can open these accounts for a minimum of 7 days.

• Investing in a fixed deposit earns you a higher interest rate than depositing your money in a saving account.

Taxability: Tax is deducted by the banks on FDs if interest paid to a customer at any bank exceeds Rs. 10,000 in a financial year.

3. Public Provident Fund (PPF):

The Public Provident Fund is a savings-cum-tax-saving instrument in India, introduced by the National Savings Institute of the Ministry of Finance in 1968. The aim of the scheme is to mobilize small savings by offering an investment with reasonable returns combined with income tax benefits. The scheme is fully guaranteed by the Central Government. Eligibility: Individuals who are residents of India are eligible to open their account under the Public Provident Fund, and are entitled to tax-free returns.

Investment and Returns: A minimum yearly deposit of ₹500 is required to open and maintain a PPF account. A PPF account holder can deposit a maximum of ₹1.5 lacs in his/her PPF account (including those accounts where he is the guardian) per financial year. Any amount deposited in excess of ₹1.5 lacs in a financial year won't earn any interest. The amount can be deposited in lump sum or in instalments per year. The rate of interest for PPF Account every quarter. The interest rate compounded annually and paid on 31 March every year. Interest is calculated on the lowest balance between the close of the fifth day and the last day of every month.

Duration: Original duration is 15 years. Thereafter, on application by the subscriber, it can be extended for 1 or more blocks of 5 years each.

Withdrawal: There is a lock-in period of 15 years and the money can be withdrawn in full after its maturity period. However, pre-mature withdrawals can be made from the start of the seventh financial year. The maximum amount that can be withdrawn pre-maturely is equal to 50% of the amount that stood in the account at the end of 4th year preceding year or the end of immediately preceding year whichever is lower. After 15 years of maturity, full PPF amount can be withdrawn and all is tax free, including the interest amount as well.

4. National Saving Certificate:

National Savings Certificates, popularly known as NSC, is an Indian Government Savings Bond, primarily used for small savings and income tax saving investments in India. It is part of the postal savings system of Indian Postal Service (India Post). These can be purchased from any Post Office in India by an adult (either in his/her own name or on behalf of a minor), a minor, a trust, and two adults jointly. The NSC has a maturity period of 5 years. The NSC rate of interest is 7.9% per annum compounded half-yearly but payable at maturity. That means, your investment of Rs. 100,000 will yield you Rs. 144,231 after 5 years.

There is no maximum limit on investment with a minimum amount of investment of Rs.100. Investments can be done in denominations of Rs.100, Rs. 500, Rs. 1,000, Rs. 5,000 and Rs.10,000. The NSC Certificate can be purchased in single holding or on behalf of a minor. Investment in NSC is tax deductible under Section 80C of The Income Tax Act. Interest on NSC is deemed to also be reinvested under Section 80 C and hence tax deductible, except interest in the final year of the NSC. NSC certificates can be pledged as security for availing bank loans. Certificates are transferable. Transfer from one person to another person is allowed only once during the investment tenure.

5. Post Office Savings:

Post Offices across India offer multiple savings schemes, some of which offer high interest to customers. They are Post office Monthly Income Scheme Account, 5-Year Post Office Recurring Deposit Account, Senior Citizen Savings Scheme, 15 year Public Provident Fund Account, and Sukanya Samriddhi Accounts. All these schemes are completely risk-free, and you do not need to have large sum of money to start investing in these post office schemes. Some schemes offer tax-saving benefits and some gives tax-free returns. So you need to find out some schemes as per your requirements.

6. Government Securities:

A government security is a bond or other type of debt obligation that is issued by a government with a promise of repayment upon the security's maturity date. Government securities are usually considered low-risk investments because they are backed by the taxing power of a government.

Features:

Government Securities are issued at face value.

Government Securities carry a sovereign guarantee and hence have zero risks of default.

Investors can sell these Government Securities in the secondary market.

Payment of Interest on Government Securities are paid on its face value.

The interest payment on these Government Securities does not attract TDS, or Tax Deducted at Source.

Government securities can be held in dematerialized form.

The interest rate of Government Securities is fixed for the entire tenor of the instrument and cannot be changed during its tenor.

The Government Securities are redeemable at face value at the time of its maturity.

The maturity period of Government Securities can range between 2 to 30 years.

Most Government Securities qualify as SLR or Statutory Liquidity Ratio investments

7. Equity share market:

A stock market, equity market or share market is the aggregation of buyers and sellers of stocks (also called shares). The securities traded in the equity market can be either be public stocks, which are those listed on the stock exchange, or privately traded stocks. Equity market is one of the most likely areas but at the same time is also a place where an investor can earn high rates of return that will push up the return of the entire portfolio. Investment in equities can be made directly by the purchase of share from market.

8. Mutual funds:

Mutual funds are basically investment vehicles that comprise the capital of different investors who share a mutual financial goal. A fund manager manages the pool of money that is collected from various investors and invests the money into a variety of investment options such as company stocks, bonds, and shares.

Mutual funds in India are regulated by the Securities and Exchange Board of India (SEBI), and investing in mutual funds is considered to be the easiest way through which you can increase your wealth. Mutual fund units are issued and redeemed by the fund management company based on the fund's net asset value (NAV), which is determined at the end of each trading session. NAV is calculated as the value of all the shares held by the fund, minus expenses, divided by the number of units issued.

9. Life insurances:

Life Insurance is a protection product which forms an integral part of an individual's financial plan. Life insurance provides monetary cover against the life of the insured. Since the value of the human life cannot be assessed, Insurance companies provide the monetary cover is in terms of sum assured by the insured at the time of taking the policy. Life insurance substitutes for the loss of income in the event of the death of the wage earner. In case of the death of the insured person, the sum assured is paid to the dependent of the deceased. The sum assured depends on many parameters like age of the insured, current earnings, health condition of the persons and many other parameters as specified by the insurance companies. Based on the information provided by the individual, insurance companies will calculate the premium payable by the insured.

Life insurance contract are a long term contract and the contract period depend on the age of the insured. Regular payment of the premium till the contract period is mandatory. In caseof the default in payment of the premium by due date, the insurance cover ceases to exist. The person defaulting in the payment of premium will get only the surrender value as per the terms and conditions of the policy. There are many types of life insurance products whichare offered by the insurance companies. They all provide life cover, but have different conditions and maturity benefits.

10. Corporate Bonds And Debentures:

Bonds & debentures, these two words can be used interchangeably. In Indian markets, we use the word bonds to indicate debt securities issued by government, semi-government bodies and public sector financial institutions and companies. We use the word debentures to refer to the debt securities issued by private sector companies.

BONDS: - Debt securities issued by Govt. or public sector companies

DEBENTURES: - Debt securities issued by private sector companies When you purchase a bond, you are lending money to a government, municipality, corporation, or public entity known as the issuer. The issuer promises to pay a specified rate of interest during the life of the bond, in return for the loan. They also promises to repay the face value of the bond (the principal) when it "matures".

11.Real Estate:

In real estate, money is used to purchase property for the purpose of holding, reselling or leasing for income and there is an element of capital risk. Residential real estate includes undeveloped land, houses, condominiums, and townhouses. The structures may be single-family or multi-family dwellings and may be owner-occupied or rental properties.

Commercial real estate includes non-residential structures such as office buildings, warehouses, and retail buildings. These buildings may be free standing or in shopping malls. Industrial real estate includes factories, business parks, mines, and farms. These properties are usually larger in size and locations may include access to transportation hubs such as rail lines.

12.Gold/Silver:

India is the largest consumer of gold in the world. In India we use gold mainly as jewels. Gold as an instrument tool always give good returns, flexibility, safety and liquidity to the investors.

INTRODUCTION OF MUTUAL FUND

There are a lot of investment avenues available today in the financial market for an investor with an investable surplus. He can invest in Bank Deposits, Corporate Debentures, and Bonds where there is low risk but low return. He may invest in Stock of companieswhere the risk is high and the returns are also proportionately high. The recent trends in the Stock Market have shown that an average retail investor always lost with periodic bearish tends. People began opting for portfolio managers with expertise in stock markets who wouldinvest on their behalf. Thus we had wealth management services provided by many institutions. However they proved too costly for a small investor. These investors have found a good shelter with the mutual funds.

CONCEPT OF MUTUAL FUND

A mutual fund is a common pool of money into which investors place their contributions that are to be invested in accordance with a stated objective. The ownership of the fund is thus joint or "mutual"; the fund belongs to all investors. A single investor's ownership of the fund is in the same proportion as the amount of the contribution made by him or her bears to the total amount of the fund.

Mutual Funds are trusts, which accept savings from investors and invest the same in diversified financial instruments in terms of objectives set out in the trusts deed with the viewto reduce the risk and maximize the income and capital appreciation for distribution for the members. A Mutual Fund is a corporation and the fund manager's interest is to professionallymanage the funds provided by the investors and provide a return on them after deducting reasonable management fees.

The objective sought to be achieved by Mutual Fund is to provide an opportunity for lower income groups to acquire without much difficulty financial assets. They cater mainly to the needs of the individual investor whose means are small and to manage investors portfolio in a manner that provides a regular income, growth, safety, liquidity and diversification opportunities for a small investors.

DEFINITION

”Mutual funds are collective savings and investment vehicles where savings of small(or sometimes big) investors are pooled together to invest for their mutual benefit and returns distributed proportionately”.

“A mutual fund is an investment that pools your money with the money of an unlimited number of other investors. In return, you and the other investors each own shares of the fund. The funds assets are invested according to an investment objective into the funds portfolio of investments. Aggressive growth funds seek long-term capital growth by investing primarilyin stocks of fast-growing smaller companies or market segments. Aggressive growth fundsare also called capital appreciation funds”.

Chapter 2

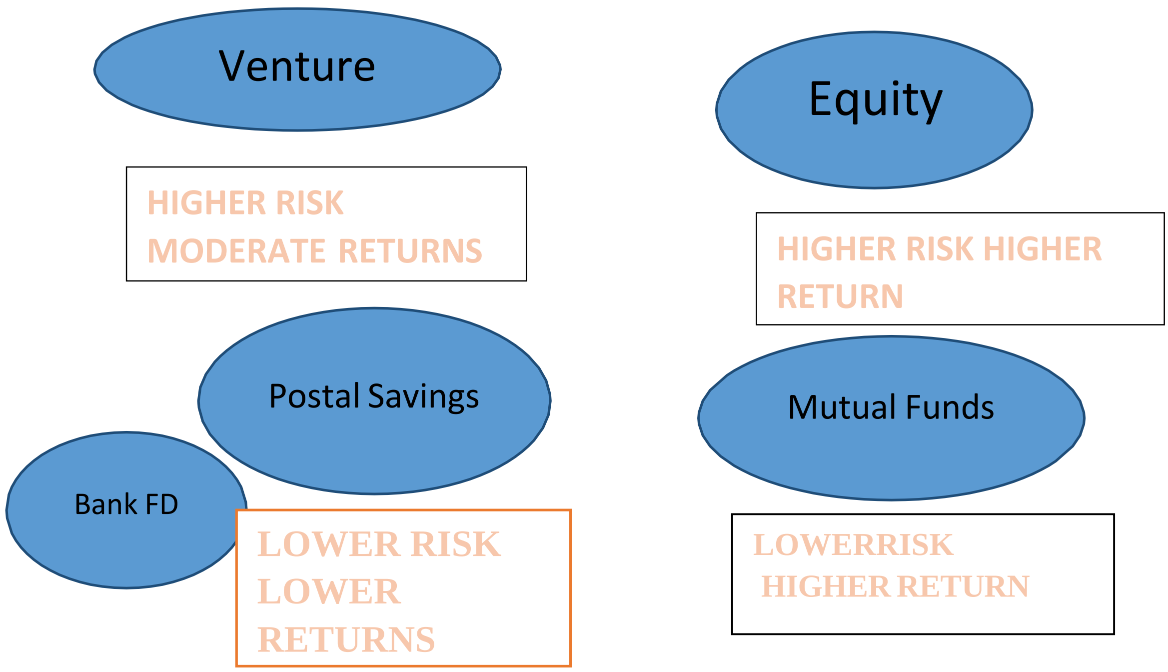
Why Select Mutual Fund?

The risk return trade-off indicates that if investor is willing to take higher risk then correspondingly, he can expect higher returns and vise versa if he pertains to lower risk instruments, which would be satisfied by lower returns. For example, if an investors opt for bank FD, which provide moderate return with minimal risk. But as he moves ahead to invest in capital protected funds and the profit-bonds that give out more return which is slightly higheras compared to the bank deposits but the risk involved also increases in the same proportion.

Thus investors choose mutual funds as their primary means of investing, as Mutual funds provide professional management, diversification, convenience and liquidity. That doesn't mean mutual fund investments risk free.

This is because the money that is pooled in are not invested only in debts funds which are less risky but are also invested in the stock markets which involves a higher risk but can expect higher returns. Hedge fund involves a very high risk since it is mostly traded in the derivatives market which is considered very volatile.

RETURN RISK MATRIX



HISTORY OF MUTUAL FUNDS IN INDIA

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank. The history of mutual funds in India can be broadly divided into four distinct phases

FIRST PHASE – 1964-87

Unit Trust of India (UTI) was established on 1963 by an Act of Parliament. It was set up by the Reserve Bank of India and functioned under the Regulatory and administrative control of the Reserve Bank of India. In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988 UTI hadRs.6,700 crores of assets under management.

SECOND PHASE – 1987-1993 (ENTRY OF PUBLIC SECTOR FUNDS)

1987 marked the entry of non- UTI, public sector mutual funds set up by public sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India(GIC). SBI Mutual Fund was the first non- UTI Mutual Fund established in June 1987 followed by Can bank Mutual Fund (Dec 87), Punjab National Bank Mutual Fund (Aug89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund(Oct 92). LICestablished its mutual fund in June 1989 while GIC had set up its mutual fund inDecember1990.

At the end of 1993, the mutual fund industry had assets under management of Rs.47,004crores.

THIRD PHASE – 1993-2003 (ENTRY OF PRIVATE SECTOR FUNDS)

With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund families. Also, 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993.

The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive andrevised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (MutualFund) Regulations 1996.

The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed severalmergers and acquisitions. As at the end of January 2003, there were 33 mutual funds with totalassets of Rs. 1,21,805 crores. The Unit Trust of India with Rs.44,541 crores of assets undermanagement was way ahead of other mutual funds.

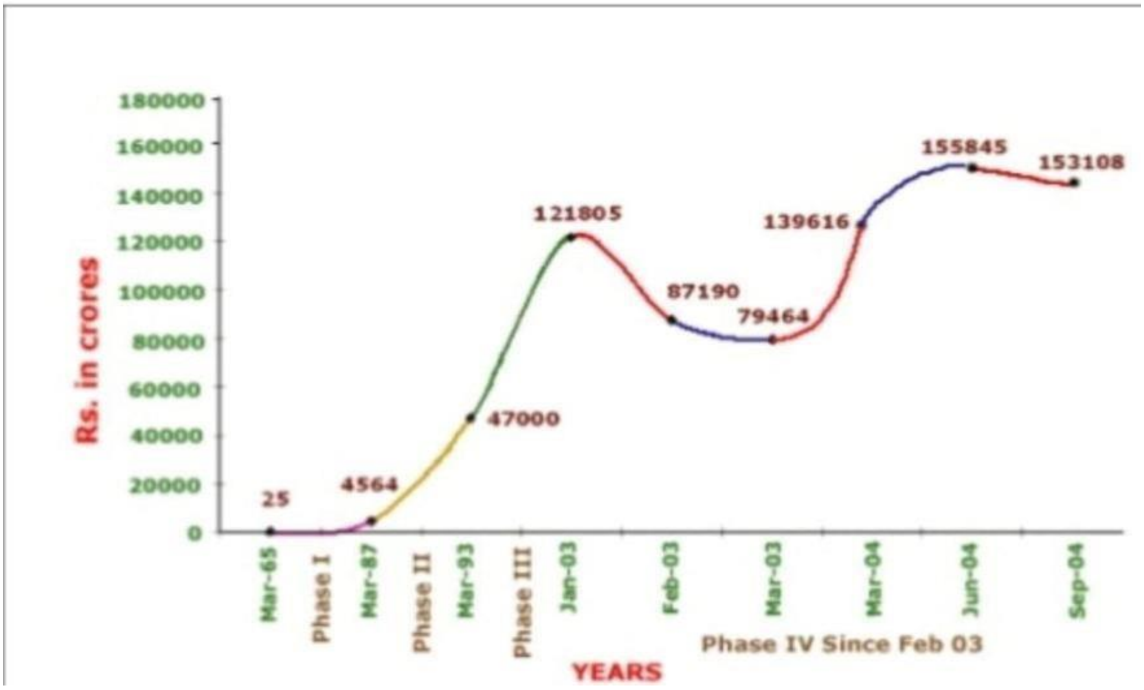
FOURTH PHASE – SINCE FEBRUARY2003:

In February 2003, following the repeal of the Unit Trust of India Act 1963 UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs.29,835 crores as at the end of January 2003, representing broadly, the assets of US 64 scheme, assured return and certain other schemes. The Specified Undertaking of Unit Trust of India, functioning under an administrator and under the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations.

The second is the UTI Mutual Fund Ltd, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. With the bifurcation of the erstwhile UTI which had in March 2000 more than Rs.76,000 crores of assets under management and with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth. As at the end of September, 2004, there were 29 funds, which manage assets of Rs.153108 crores under 421schemes.

The graph indicates the growth of assets under management over the years.

GROWTH IN ASSETS UNDER MANAGEMENT



ADVANTAGES OF MUTUAL FUNDS:

If mutual funds are emerging as the favorite investment vehicle, it is because of the many advantages they have over other forms and the avenues of investing, particularly for theinvestor who has limited resources available in terms of capital and the ability to carry out detailed research and market monitoring. The following are the major advantages offered by mutual funds to all investors:

1. **Portfolio Diversification:**

Each investor in the fund is a part owner of all the fund's assets, thus enabling him to hold a diversified investment portfolio even with a small amount of investment that would otherwise require big capital.

2. **Professional Management:**

Even if an investor has a big amount of capital available to him, he benefits from the professional management skills brought in by the fund in the management of the investor's portfolio. The investment management skills, along with the needed research into available investment options, ensure a much better return than what an investor can manage on his own. Few investors have the skill and resources of their own to succeed in today's fast moving, global and sophisticated markets.

3. **Reduction/Diversification Of Risk:**

When an investor invests directly, all the risk of potential loss is his own, whether he places a deposit with a company or a bank, or he buys a share or debenture on his own or in another from. While investing in the pool of funds with investors, the potential losses are also shared with other investors. The risk reduction is one of the most important benefits of a collective investment vehicle like the mutual fund.

4. **Reduction Of Transaction Costs:**

What is true of risk as also true of the transaction costs? Theinvestor bears all the costs of investing such as brokerage or custody of securities. When going through a fund, he has the benefit of economies of scale; the funds pay lesser costs because of larger volumes, a benefit passed on to its investors.

5. **Liquidity:**

Often, investors hold shares or bonds they cannot directly, easily and quickly sell. When they invest in the units of a fund, theycan generally cash their investments any time, by selling their units to the fund if open-ended, or selling them in the market if the fund is close-end. Liquidity of investment is clearly a big benefit.

6. **Convenience and Flexibility:**

Mutual fund management companies offer many investor services that a direct market investor cannot get. Investors can easily transfer their holding from one scheme to the other; get updated market information and so on.

7. **Tax Benefits:**

Any income distributed after March 31, 2002 will be subject to tax in the assessment of all Unit holders.However, as a measure of concession to Unit holders of open-ended equity- oriented funds, income distributions for the year ending March 31, 2003, will be taxed at a concessional rate of 10.5%.

In case of Individuals and Hindu Undivided Families a deduction upto Rs. 9,000 from the Total Income will be admissible in respect of income from investments specified in Section 80L,including income from Units of the Mutual Fund. Units of the schemes are not subject to Wealth-Tax and Gift-Tax.

8. **Choice of Schemes:**

Mutual Funds offer a family of schemes to suit your varying needs over a lifetime.

9. **Well Regulated:**

All Mutual Funds are registered with SEBI and they function within the provisions of strict regulations designed to protect the interests of investors. The operations of Mutual Funds are regularly monitored by SEBI.

10. **Transparency:**

You get regular information on the value of your investment in addition to disclosure on the specific investments made by your scheme, the proportion invested in each class of assets and the fund managers investment strategy and outlook.

DISADVANTAGES OF INVESTING THROUGH MUTUAL FUNDS:

1. **No Control Over Costs:**

An investor in a mutual fund has no control of the overall costs of investing. The investor pays investment management fees as long as he remains with the fund, albeit in return for the professional management and research. Fees are payable even if the value of his investments is declining. A mutual fund investor also pays fund distribution costs, which he would not incur indirect investing. However, this shortcoming only means that there is a cost to obtain the mutual fund services.

2. **No Tailor-Made Portfolio:**

Investors who invest on their own can build their own portfolios of shares and bonds and other securities. Investing through fund means he delegates this decision to the fund managers. The very-high-net-worth individuals or large corporate investors may find this to be a constraint in achieving their objectives. However, most mutual fund managers help investors overcome this constraint by offering families of funds- a large number of different schemes- within their own management company. An investor can choose from different investment plans and constructs a portfolio to his choice.

3. **Managing a Portfolio of Funds:**

Availability of a large number of funds can actually mean toomuch choice for the investor. He may again need advice on how to select a fund to achieve his objectives, quite similar to the situation when he has individual shares or bonds to select.

4. **The Wisdom of Professional Management:**

That’s right, this is not an advantage. The averagemutual fund manager is no better at picking stocks than the average nonprofessional, but charges fees.

5. **No Control:**

Unlike picking your own individual stocks, a mutual fund puts you inthe passenger seat of somebody else’s car

6. **Dilution:**

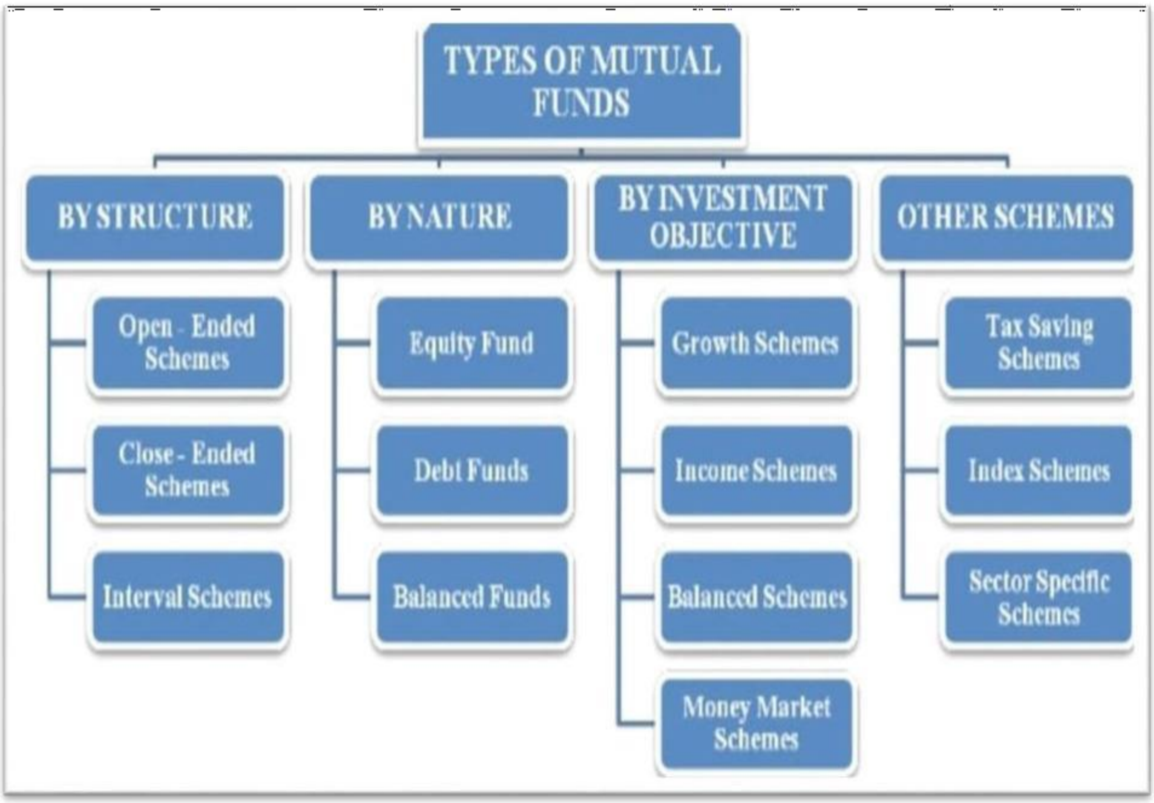
Mutual funds generally have such small holdings of so many different stocks that insanely great performance by a funds top holdings stilldoesn’t make much of a difference in mutual funds total performance.

7. **Buried Costs:**

Many mutual funds specialize in burying their costs and in hiring salesmen who do not make thosecosts clear to their clients.

TYPES OF MUTUAL FUNDS SCHEMES IN INDIA

Wide variety of Mutual Fund Schemes exists to cater to the needs such as financial position, risk tolerance and return expectations etc. thus mutual funds has Variety of flavors, Being a collection of many stocks, an investors can go for picking a mutual fund might be easy. There are over hundreds of mutual funds scheme to choose from. It is easier to think of mutual funds in categories, mentioned below.



A) BY STRUCTURE

1. Open - Ended Schemes:

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.

2. Close - Ended Schemes:

A closed-end fund has a stipulated maturity period which generally ranging from 3 to15years. The fund is open for subscription only during a specified period. Investors can investin the scheme at the time of the initial public issue and thereafter they can buy or sell theunits of the scheme on the stock exchanges where they are listed. In order to provide an exit route to the investors, some close-ended funds give an option of selling back the units to the Mutual Fund through periodic repurchase at NAV related prices. SEBI Regulations stipulate that at least one of the two exit routes is provided to the investor.

3. Interval Schemes:

Interval Schemes are that scheme, which combines the features of open-ended and close ended schemes. The units may be traded on the stock exchange or may be open for sale or redemption during pre-determined intervals at NAV related prices.

B) BY NATURE

1. Equity Fund:

These funds invest a maximum part of their corpus into equities holdings. The structureof the fund may vary different for different schemes and the fund manager’s outlook on different stocks. The Equity Funds are sub-classified depending upon their investment objective, as follows:

- Diversified Equity Funds
- Mid-Cap Funds
- Sector Specific Funds
- Tax Savings Funds (ELSS)

Equity investments are meant for a longer time horizon, thus Equity funds rank high on the risk-return matrix.

2. Debt Funds:

The objective of these Funds is to invest in debt papers. Government authorities, private companies, banks and financial institutions are some of the major issuers of debt papers. By investing in debt instruments, these funds ensure low risk and provide stable income to the investors. Debt funds are further classified as:

- **Gilt Funds:** Invest their corpus in securities issued by Government, popularly known as Government of India debt papers. These Funds carry zero Default risk but are associated with Interest Rate risk. These schemes are safer as they invest in papers backed by Government.

- **Income Funds:** Invest a major portion into various debt instruments such as bonds, corporate debentures and Government securities.

- **MIPs:** Invests maximum of their total corpus in debt instruments while they take minimum exposure in equities. It gets benefit of both equity and debt market. These scheme ranks slightly high on the risk-return matrix when compared with other debt schemes.

- **Short Term Plans (STPs):** Meant for investment horizon for three to six months. These funds primarily invest in short term papers like Certificate of Deposits (CDs) and Commercial Papers (CPs). Some portion of the corpus is also invested in corporate debentures.

- **Liquid Funds:** Also known as Money Market Schemes, These funds provides easy liquidity and preservation of capital. These schemes invest in short-term instruments like Treasury Bills, inter-bank call money market, CPs and CDs. These funds are meant for short-term cash management of corporate houses and are meant for an investmenthorizon of 1day to 3 months. These schemes rank low on risk-return matrix and are considered to be the safest amongst all categories of mutual funds

C) BY INVESTMENT OBJECTIVE:

1. **Growth Schemes:**

Growth Schemes are also known as equity schemes. The aim of these schemes is to provide capital appreciation over medium to long term. These schemes normally invest a major part of their fund in equities and are willing to bear short-term decline in value for possible future appreciation.

2. **Income Schemes:**

Income Schemes are also known as debt schemes. The aim of these schemes is to provide regular and steady income to investors. These schemes generally invest in fixed income securities such as bonds and corporate debentures. Capital appreciation in such schemes may be limited

3. **Balanced Schemes:**

Balanced Schemes aim to provide both growth and income by periodically distributing apart of the income and capital gains they earn. These schemes invest in both shares and fixed income securities, in the proportion indicated in their offer documents (normally 50:50).

4. **Money Market Schemes:**

Money Market Schemes aim to provide easy liquidity, preservation of capital and moderate income. These schemes generally invest in safer, short-term instruments, such as treasury bills, certificates of deposit, commercial paper and inter-bank call money.

5. **Load Funds:**

A Load Fund is one that charges a commission for entry or exit. That is, each time you buy or sell units in the fund, a commission will be payable. Typically entry and exit loads range from 1% to 2%. It could be worth paying the load, if the fund has a good performancehistory.

6. **No-Load Funds:**

A No-Load Fund is one that does not charge a commission for entry or exit. That is, no commission is payable on purchase or sale of units in the fund. The advantage of a no load fund is that the entire corpus is put to work.

OTHER SCHEMES

1. **Tax Saving Schemes:**

Tax-saving schemes offer tax rebates to the investors under tax laws prescribed from time to time. Under Sec.88 of the Income Tax Act, contributions made to any Equity Linked Savings Scheme (ELSS) are eligible for rebate.

2. **Index Schemes:**

Index schemes attempt to replicate the performance of a particular index such as the BSE Sensex or the NSE 50. The portfolio of these schemes will consist of only those stocks that constitute the index. The percentage of each stock to the total holding will be identical to the stocks index weightage. And hence, the returns from such schemes would be more or less equivalent to those of the Index.

3. **Sector Specific Schemes:**

These are the funds/schemes which invest in the securities of only those sectors or industries as specified in the offer documents. E.g. Pharmaceuticals, Software, Fast Moving Consumer

Goods (FMCG), Petroleum stocks, etc. The returns in these funds are dependent on the performance of the respective sectors/industries. While these funds may give higher returns, they are riskier compared to diversified funds. Investors need to keep a watch on the performance of those sectors/industries and must exit at an appropriate time.

NET ASSET VALUE (NAV):

Since each owner is a part owner of a mutual fund, it is necessary to establish the value of his part. In other words, each share or unit that an investor holds needs to be assigned a value. Since the units held by investor evidence the ownership of the fund's assets, the value of the total assets of the fund when divided by the total number of units issued by the mutual fund gives us the value of one unit. This is generally called the Net Asset Value (NAV) of one unit or one share. The value of an investor's part ownership is thus determined by the NAV of the number of units held.

Calculation of NAV:

Let us see an example. If the value of a fund's assets stands at Rs. 100 and it has 10investors who have bought 10 units each, the total numbers of units issued are 100, and the value ofone unit is Rs. 10.00 (1000/100). If a single investor in fact owns 3 units, the value of his ownership of the fund will be Rs. 30.00(1000/100*3). Note that the value of the fund's investments will keep fluctuating with the market-price movements, causing the Net Asset Value also to fluctuate. For example, if the value of our fund's asset increased from Rs. 1000 to 1200,the value of our investors holding of 3 units will now be (1200/100*3) Rs. 36. The investment value can go up or down, depending on the markets value of the fund's assets.

MUTUAL FUND FEES AND EXPENSES

Mutual fund fees and expenses are charges that may be incurred by investors who holdmutual funds. Running a mutual fund involves costs, including shareholder transaction costs, investment advisory fees, and marketing and distribution expenses. Funds pass along these costs to investors in a number of ways.

1. TRANSACTION FEES

I. Purchase Fee:

It is a type of fee that some funds charge their shareholders when they buy shares. Unlike a front-end sales load, a purchase fee is paid to the fund (not to a broker) and is typically imposed to defray some of the funds costs associated with the purchase.

II. Redemption Fee:

It is another type of fee that some funds charge their shareholders when they sell or redeem shares. Unlike a deferred sales load, a redemption fee is paid to the fund (not to a broker) and is typically used to defray fund costs associated with a shareholders redemption.

III. Exchange Fee:

Exchange fee that some funds impose on shareholders if they exchange (transfer) to another fund within the same fund group or "family of funds."

2. PERIODIC FEES

I. Management Fee:

Management fees are fees that are paid out of fund assets to the funds investment adviser for investment portfolio management, any other management fees payable to the funds investment adviser or its affiliates, and administrative fees payable to the investment adviser that are not included in the "Other Expenses" category. They are also called maintenance fees.

II. Account Fee:

Account fees are fees that some funds separately impose on investors in connection with the maintenance of their accounts. For example, some funds impose an account maintenance fee on accounts whose value is less than a certain dollar amount.

3. OTHER OPERATING EXPENSES

Transaction Costs:

These costs are incurred in the trading of the funds assets. Funds with a high turnover ratio, or investing in illiquid or exotic markets usually face higher transaction costs. Unlike the Total Expense Ratio these costs are usually not reported.

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LOADS

Definition of a load

Load funds exhibit a "Sales Load" with a percentage charge levied on purchase or sale of shares. A load is a type of Commission (remuneration). Depending on the type of load a mutualfund exhibits, charges may be incurred at time of purchase, time of sale, or a mix of both. The different types of loads are outlined below.

I. Front-end load:

Also known as Sales Charge, this is a fee paid when shares are purchased. Also known asa "front-end load," this fee typically goes to the brokers that sell the funds shares. Front-end loads reduce the amount of your investment. For example, let’s say you have Rs.10,000 and want to invest it in a mutual fund with a 5% front-end load. The Rs.500 sales load you must pay comes off the top, and the remaining Rs.9500 will be invested in the fund. According to NASDrules, a front-endload cannot be higher than 8.5% of your investment.

II. Back-end load:

Also known as Deferred Sales Charge, this is a fee paid when shares are sold. Also known as a "back-end load," this fee typically goes to the brokers that sell the funds shares. The amount of this type of load will depend on how long the investor holds his or her shares and typically decreases to zero if the investor holds his or her shares long enough.

III. Level load / Low load:

It’s similar to a back-end load in that no sales charges are paid when buying the fund. Instead a back-end load may be charged if the shares purchased are sold within a given timeframe. The distinction between level loads and low loads as opposed to back-end loads, is that this time frame where charges are levied is shorter.

IV. No-load Fund:

As the name implies, this means that the fund does not charge any type of sales load. But,as outlined above, not every type of shareholder fee is a "sales load." A no-load fund maycharge fees that are not sales loads, such as purchase fees, redemption fees, exchange fees, andaccount fees.

SELECTION PARAMETERS FOR MUTUAL FUND

- **Your objective:**

The first point to note before investing in a fund is to find out whether your objective matches with the scheme. It is necessary, as any conflict would directly affect your prospective returns. Similarly, you should pick schemes that meet your specific needs. Examples: pensionplans, children's plans, sector-specific schemes, etc.

- **Your risk capacity and capability:**

This dictates the choice of schemes. Those with no risk tolerance should go for debt schemes, as they are relatively safer. Aggressive investors can go for equity investments. Investors that are even more aggressive can try schemes that invest in specific industry orsectors.

- **Fund Manager's and scheme track record:**

Since you are giving your hard earned money to someone to manage it, it is imperative that he manages it well. It is also essential that the fund house you choose has excellent track record. It also should be professional and maintain high transparency in operations. Look at the performance of the scheme against relevant market benchmarks and its competitors. Lookat the performance of a longer period, as it will give you how the scheme fared in different market conditions.

- **Cost factor:**

Though the AMC fee is regulated, you should look at the expense ratio of the fund before investing. This is because the money is deducted from your investments. A higher entry load or exit load also will eat into your returns. A higher expense ratio can be justified only by superlative returns. It is very crucial in a debt fund, as it will devour a few percentages from your modest returns.

Also, Morningstar rates mutual funds. Each year end, many financial publications list the years best performing mutual funds. Naturally, very eager investors will rush out to purchase shares of last years top performers. That's a big mistake. Remember, changing marketconditions make it rare that last years top performer repeats that ranking for the current year. Mutual fund investors would be well advised to consider the fund prospectus, the fund manager, and the current market conditions. Never rely on last years top performers.

Types of Returns on Mutual Fund

There are three ways, where the total returns provided by mutual funds can be enjoyed by investors:

- Income is earned from dividends on stocks and interest on bonds. A fund pays out nearly all income it receives over the year to fund owners in the form of a distribution.

- If the fund sells securities that have increased in price, the fund has a capital gain. Most funds also pass on these gains to investors in a distribution.

Iffund holdings increase in price but are not sold by the fund manager, the funds shares increase in price. You can then sell your mutual fund shares for a profit. Funds will also usually give you a choice either to receive a check for distributions or to reinvest the earningsand get more shares.

RISK FACTORS OF MUTUAL FUNDS:

1. **The Risk-Return Trade-Off:**

The most importantrelationship to understand is the risk-return trade-off. Higher theriskgreater the returns / loss and lower the risk lesser the returns/loss.

Hence it is up to you, the investor to decide how much risk you are willing to take. In order to do this you must first be aware of the different types of risks involved with your investment decision.

2. **Market Risk:**

Sometimes prices and yields of all securities rise and fall. Broad outside influences affecting the market in general lead to this. This is true, may it be big corporations or smallermid-sized companies. This is known as Market Risk. A Systematic Investment Plan (“SIP”) that works on the concept of Rupee Cost Averaging (“RCA”) might help mitigate this risk.

3. **Credit Risk:**

The debt servicing ability (may it be interest payments or repayment of principal) of acompany through its cash flows determines the Credit Risk faced by you. This credit risk is measured by independent rating agencies like CRISIL who rate companies and their paper. A‘AAA’ rating is considered the safest whereas a ‘D’ rating is considered poor credit quality.A well-diversified portfolio might help mitigate this risk.

4. **Inflation Risk:**

Things you hear people talk about:

"Rs. 100 today is worth more than Rs. 100 tomorrow."

"Remember the time when a bus ride costed 50 paise?"

"Mehangai Ka Jamana Hai."

The root cause,Inflation. Inflation is the loss of purchasing power over time. A lot of times people make conservative investment decisions to protect their capital but end up with a sum of money that can buy less than what the principal could at the time of the investment. This happens when inflation grows faster than the return on your investment. A well-diversified portfolio with some investment in equities might help mitigate this risk.

5. **Interest Rate Risk:**

In a freemarket economy interest rates are difficult if not impossible to predict. Changes in interest rates affect the prices of bonds as well as equities. If interest rates rise the prices of bonds fall and vice versa. Equity might be negatively affected as well in a rising interest rate environment. A well-diversified portfolio might help mitigate this risk.

6. **Political / Government Policy Risk:**

Changes in government policy and political decision can change the investment environment. They can create a favorable environment for investment or vice versa.

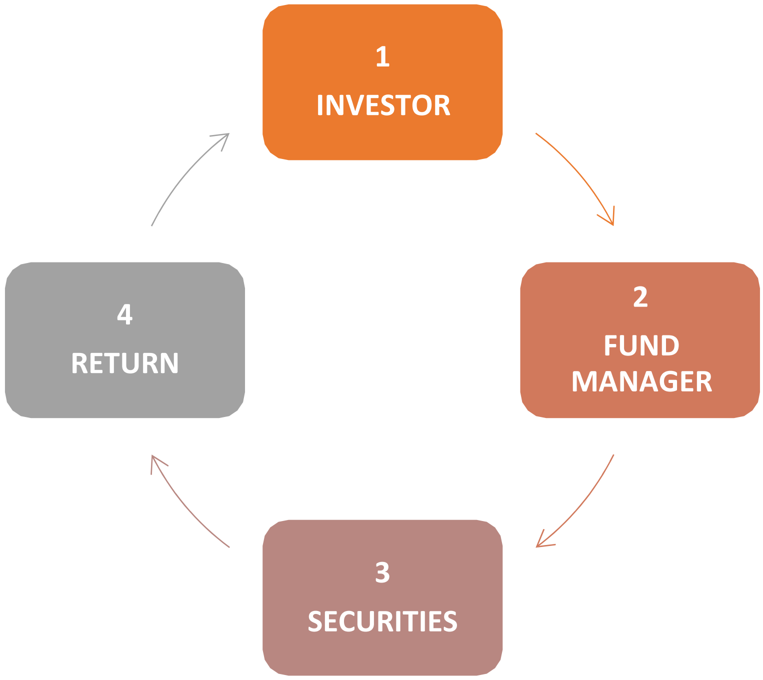
7. **Liquidity Risk:**

Liquidity risk arises when it becomes difficult to sell the securities that one has purchased. Liquidity Risk can be partly mitigated by diversification, staggering of maturities as well as internal risk controls that lean towards purchase of liquid securities.

Chapter-3

STRUCTURE OF MUTUAL FUNDS

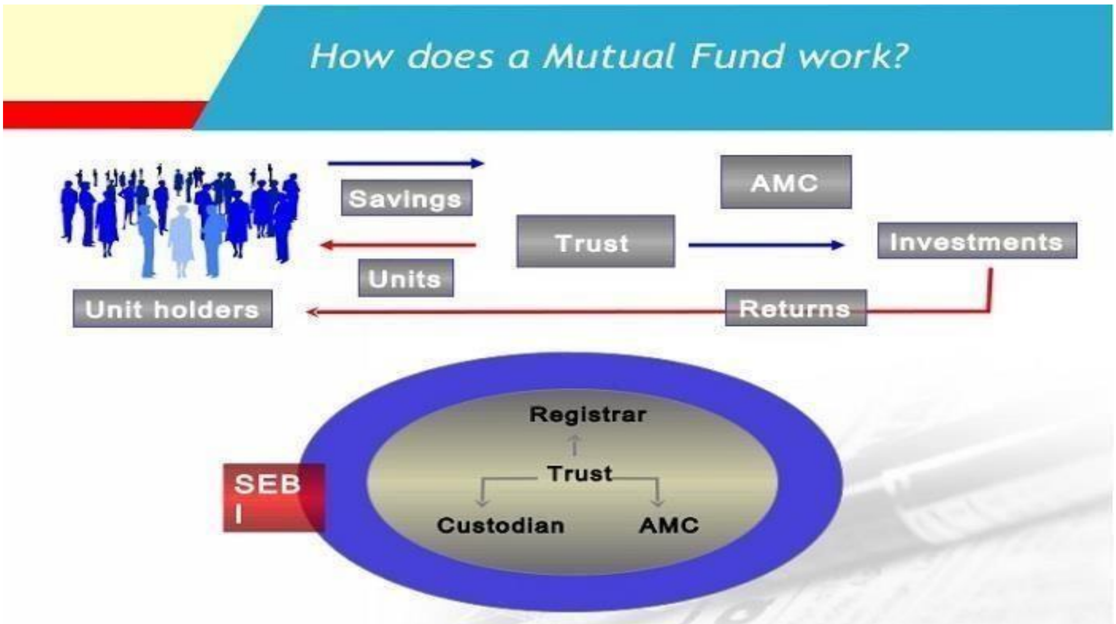
WORKING OF MUTUAL FUNDS



The mutual fund collects money directly or through brokers from investors. The money is invested in various instruments depending on the objective of the scheme. The incomegenerated by selling securities or capital appreciation of these securities is passed on to the investors in proportion to their investment in the scheme. The investments are divided into unitsand the value of the units will be reflected in Net Asset Value or NAV of the unit. NAV is themarket value of the assets of the scheme minus its liabilities. The per unit NAV is thenet asset value of the scheme divided by the number of units outstanding on the valuation date. Mutual fund companies provide daily net asset value of their schemes to their investors. NAVis important, as it will determine the price at which you buy or redeem the units of a scheme. Depending on the load structure of the scheme, you have to pay entry or exit load.

STRUCTURE OF A MUTUAL FUND

India has a legal framework within which Mutual Fund have to be constituted. In India open and close-end funds operate under the same regulatory structure i.e. as unit Trusts. A Mutual Fund in India is allowed to issue open-end and close-end schemes under a common legal structure. The structure that is required to be followed by any Mutual Fund in India is laid down under SEBI (Mutual Fund) Regulations, 1996.



The Fund Sponsor

Sponsor is defined under SEBI regulations as any person who, acting alone or in combination of another corporate body establishes a Mutual Fund. The sponsor of the fund is akin to the promoter of a company as he gets the fund registered with SEBI. The sponsor forms a trust and appoints a Board of Trustees. The sponsor also appoints the Asset Management Company as fund managers. The sponsor either directly or acting through the trustees will also appoint a custodian to hold funds assets. All these are made in accordance with the regulation and guidelines of SEBI.

As per the SEBI regulations, for the person to qualify as a sponsor, he must contribute at least40% of the net worth of the Asset Management Company and possesses a sound financial track record over 5 years prior to registration.

Mutual Funds as Trusts

A Mutual Fund in India is constituted in the form of Public trust Act, 1882. The Fund sponsor acts as a settlor of the Trust, contributing to its initial capital and appoints a trustee to hold the assets of the trust for the benefit of the unit-holders, who are the beneficiaries of the trust. The fund then invites investors to contribute their money in common pool, by scribing to “units” issued by various schemes established by the Trusts as evidence of their beneficial interest in the fund.

It should be understood that the fund should be just a “pass through” vehicle. Under the Indian Trusts Act, the trust of the fund has no independent legal capacity itself, rather it is

The Trustee or the Trustees who have the legal capacity and therefore all acts in relation to the trusts are taken on its behalf by the Trustees. In legal parlance the investors or the unit- holders are the beneficial owners of the investment held by the Trusts, even as these investments are held in the name of the Trustees on a day-to-day basis. Being public trusts, Mutual Fund can invite any number of investors as beneficial owners in their investment schemes.

Trustees

A Trust is created through a document called the Trust Deed that is executed by the fund sponsor in favour of the trustees. The Trust- the Mutual Fund – may be managed by a board of trustees- a body of individuals, or a trust company- a corporate body. Most of the funds in India are managed by Boards of Trustees. While the boards of trustees are governed by the Indian Trusts Act, where the trusts are a corporate body, it would also require to comply with the Companies Act, 1956. The Board or the Trust company as an independent body, acts as a protector of the of the unit-holders interests. The Trustees do not directly manage the portfolio of securities. For this specialist function, the appoint an Asset Management Company. They ensure that the Fund is managed by AMC as per the defined objectives andin accordance with the trusts deed sand SEBI regulations.

The Asset Management Companies

The role of an Asset Management Company (AMC) is to act as the investment manager of the Trust under the board supervision and the guidance of the Trustees. The AMC is required to be approved and registered with SEBI as an AMC. The AMC of a Mutual Fund must have a net worth of at least Rs. 10 Crores at all times. Directors of the AMC, both independent and non-independent, should have adequate professional expertise in financial services and shouldbe individuals of high morale standing, a condition also applicable to other key personnel of the AMC. The AMC cannot act as a Trustee of any other Mutual Fund. Besides its role as a fund manager, it may undertake specified activities such as advisory services and financial consulting, provided these activities are run independent of one another and the AMC's resources (such as personnel, systems etc.) are properly segregated by the activity. The AMC must always act in the interest of the unit-holders and reports to the trustees with respect to its activities.

Custodian and Depositories

Mutual Fund is in the business of buying and selling of securities in large volumes. Handling these securities in terms of physical delivery and eventual safekeeping is a specializedactivity. The custodian is appointed by the Board of Trustees for safekeeping of securities or participating in any clearance system through approved depository companies on behalf of the Mutual Fund and it must fulfill its responsibilities in accordance with its agreement with the Mutual Fund. The custodian should be an entity independent of the sponsors and is required to be registered with SEBI. With the introduction of the concept of dematerializationof shares the dematerialized shares are kept with the Depository participant while the custodian holds the physical securities. Thus, deliveries of a fund's securities are given or received by a custodian ora depository participant, at the instructions of the AMC, although under the overalldirection and responsibilities of the Trustees.

Bankers

A Fund's activities involve dealing in money on a continuous basis primarily with respect to buying and selling units, paying for investment made, receiving the proceeds from sale of the investments and discharging its obligations towards operating expenses. Thus the Fund's bankerplays an important role to determine quality of service that the fund gives in timely delivery of remittances etc.

Transfer Agents

Transfer agents are responsible for issuing and redeeming units of the Mutual Fund and provide other related services such as preparation of transfer documents and updating investor records. A fund may choose to carry out its activity in-house and charge the scheme for the service at a competitive market rate. Where an outside Transfer agent is used, the fundinvestor will find the agent to be an important interface to deal with, since all of the investor services that a fund provides are going to be dependent on the transfer agent.

REGULATORY STRUCTURE OF MUTUAL FUNDS IN INDIA

The structure of mutual funds in India is guided by the SEBI. Regulations, 1996.Theseregulations make it mandatory for mutual fund to have three structures of sponsor trustee and asset Management Company. The sponsor of the mutual fund and appoints the trustees. The trustees are responsible to the investors in mutual fund and appoint the AMC for managing the investment portfolio. The AMC is the business face of the mutual fund, as it manages all the affairs of the mutual fund. The AMC and the mutual fund have to beregistered with SEBI.

SEBI REGULATIONS

- As far as mutual funds are concerned, SEBI formulates policies and regulates the mutual funds to protect the interest of the investors.
- SEBI notified regulations for the mutual funds in 1993. Thereafter, mutual funds sponsored by private sector entities were allowed to enter the capital market.
- The regulations were fully revised in 1996 and have been amended thereafter from time to time.
- SEBI has also issued guidelines to the mutual funds from time to time to protect the interests of investors.
- All mutual funds whether promoted by public sector or private sector entities including those promoted by foreign entities are governed by the same set of Regulations. The risks associated with the schemes launched by the mutual funds sponsored by these entities are of similar type. There is no distinction in regulatory requirements for these mutual funds and all are subject to monitoring and inspections by SEBI.
- SEBI Regulations require that at least two thirds of the directors of trustee company or board of trustees must be independent i.e. they should not be associated with the sponsors.
- Also, 50% of the directors of AMC must be independent. All mutual funds arerequired to be registered with SEBI before they launch any scheme.
- Further SEBI Regulations, inter-alia, stipulate that MFs cannot guarantee returns in any scheme and that each scheme is subject to 20 : 25 condition [I.e. minimum 20 investors per scheme and one investor can hold more than 25% stake in the corpus in that one scheme].

- Also SEBI has permitted MFs to launch schemes overseas subject various restrictions and also to launch schemes linked to Real Estate, Options and Futures, Commodities, etc.

ASSOCIATION OF MUTUAL FUNDS IN INDIA (AMFI)

With the increase in mutual fund players in India, a need for mutual fund association in India was generated to function as a non-profit organisation. Association of Mutual Funds in India (AMFI) was incorporated on 22nd August, 1995.

AMFI is an apex body of all Asset Management Companies (AMC) which has been registered with SEBI. Till date all the AMCs are that have launched mutual fund schemes are its members. It functions under the supervision and guidelines of its Board of Directors.

Association of Mutual Funds India has brought down the Indian Mutual Fund Industry to a professional and healthy market with ethical lines enhancing and maintaining standards. It follows the principle of both protecting and promoting the interests of mutual funds as well as their unit holders.

The Objectives of Association of Mutual Funds in India

The Association of Mutual Funds of India works with 30 registered AMCs of the country. It has certain defined objectives which juxtaposes the guidelines of its Board of Directors. The objectives are as follows:

- This mutual fund association of India maintains high professional and ethical standards in all areas of operation of the industry.
- It also recommends and promotes the top class business practices and code of conduct which is followed by members and related people engaged in the activities of mutual fund and asset management. The agencies who are by any means connected orinvolved in the field of capital markets and financial services also involved in this code of conduct of the association.
- AMFI interacts with SEBI and works according to SEBIs guidelines in the mutual fund industry.
- Association of Mutual Fund of India do represent the Government of India, theReserve Bank of India and other related bodies on matters relating to the Mutual FundIndustry.
- It develops a team of well qualified and trained Agent distributors. It implements a programme of training and certification for all intermediaries and other engaged in the mutual fund industry.

- AMFI undertakes all India awareness programme for investors in order to promote proper understanding of the concept and working of mutual funds.
- At last but not the least association of mutual fund of India also disseminate informations on Mutual Fund Industry and undertakes studies and research either directly or in association with other bodies.

AMFI Publications

AMFI publish mainly two types of bulletin. One is on the monthly basis and the other is quarterly. These publications are of great support for the investors to get intimation of the knowhow of their parked money.

Chapter-4

MUTUAL FUNDS IN INDIA

MUTUAL FUNDS IN INDIA

In 1963, the day the concept of Mutual Fund took birth in India. Unit Trust of India invited investors or rather to those who believed in savings, to park their money in UTI Mutual Fund.

For 30 years it goaled without a single second player. Though the 1988 year saw some new mutual fund companies, but UTI remained in a monopoly position.

The performance of mutual funds in India in the initial phase was not even closer to satisfactory level. People rarely understood, and of course investing was out of question. But yes, some 24 million shareholders were accustomed with guaranteed high returns by the beginning of liberalization of the industry in 1992. This good record of UTI became marketing tool for new entrants. The expectations of investors touched the sky in profitabilityfactor. However, people were miles away from the preparedness of risks factor after the liberalization.

The net asset value (NAV) of mutual funds in India declined when stock prices started falling in the year 1992. Those days, the market regulations did not allow portfolio shifts into alternative investments. There was rather no choice apart from holding the cash or to further continue investing in shares. One more thing to be noted, since only closed-end funds werefloated in the market, the investors disinvested by selling at a loss in the secondary market.

The performance of mutual funds in India suffered qualitatively. The 1992 stock market scandal, the losses by disinvestments and of course the lack of transparent rules in the whereabouts rocked confidence among the investors. Partly owing to a relatively weak stock market performance, mutual funds have not yet recovered, with funds trading at an average discount of 1020 percent of their net asset value.

The securities and Exchange Board of India (SEBI) came out with comprehensive regulation in 1993 which defined the structure of Mutual Fund and Asset ManagementCompanies for the first time.

The supervisory authority adopted a set of measures to create a transparent and competitive environment in mutual funds. Some of them were like relaxing investmentrestrictions into the market, introduction of open-ended funds, and paving the gateway for mutualfunds to launch pension schemes.

The measure was taken to make mutual funds the key instrument for long-term saving. The more the variety offered, the quantitative will be investors.

Several private sectors Mutual Funds were launched in 1993 and 1994. The share of the private players has risen rapidly since then. Currently there are 34 Mutual Fund organizationsin India managing 1,02,000 Crores.

At last to mention, as long as mutual fund companies are performing with lower risksandhigher profitability within a short span of time, more and more people will be inclined to invest until and unless they are fully educated with the dos and don'ts of mutual funds.

Mutual fund industry has seen a lot of changes in past few years with multinationalcompanies coming into the country, bringing in their professional expertise in managing fundsworldwide. In the past few months there has been a consolidation phase going on in the mutualfund industry in India. Now investors have a wide range of Schemes to choose from depending on their individual profiles.

MUTUAL FUND COMPANIES IN INDIA

The concept of mutual funds in India dates back to the year 1963. The era between 1963and 1987 marked the existence of only one mutual fund company in India with Rs. 67bn assets under management (AUM), by the end of its monopoly era, the Unit Trust of India (UTI). By the end of the 80s decade, few other mutual fund companies in India took their position in mutual fund market.

The new entries of mutual fund companies in India were SBI Mutual Fund, CanbankMutual Fund, Punjab National Bank Mutual Fund, Indian Bank Mutual Fund, Bank of India Mutual Fund.

The succeeding decade showed a new horizon in Indian mutual fund industry. By the endof 1993, the total AUM of the industry was Rs. 470.04 bn. The private sector funds started penetrating the fund families. In the same year the first Mutual Fund Regulations came intoexistence with re-registering all mutual funds except UTI. The regulations were further given a revised shape in 1996.

Kothari Pioneer was the first private sector mutual fund company in India which has now merged with Franklin Templeton. Just after ten years with private sector players penetration, thetotal assets rose up to Rs. 1218.05 bn. Today there are 33 mutual fund companies in India.

Major Mutual Fund Companies in India

DSP ASSET MANAGEMENT COMPANY

DSP Mutual Fund was set up as a trust under the Indian Trust Act, 1882. The sponsors to the Fund are DSP ADIKO Holdings Pvt. Ltd and DSP HMK Holdings Pvt. Ltd. DSP Investment Managers Pvt. Ltd. (formerly known as DSP BlackRock Investment Managers Pvt. Ltd. is the asset management company to the Fund. DSP Trustee Pvt. Ltd. ("formerly known as DSP BlackRock Trustee Company Pvt. Ltd.") acts as the trustee to the Fund.DSP

Group, headed by Mr. Hemendra Kothari, is one of the oldest and most respected financial services firms in India. The firm commenced its stock broking business in the 1860s and the family behind the group has been very influential in the growth and professionalization of capital markets and money management business in India. It is one of the oldest financial firm in India more than 150 years. The family behind DSP Group also consisted of a founding member of the Bombay Stock Exchange.

JM ASSET MANAGEMENT COMPANY

JM Financial Asset Management Limited, the Asset Management Company of JM Financial Mutual Fund is sponsored by JM Financial Limited. JM Financial Asset Management Limited started operations in December 1994 with a simultaneous launch of three funds-JM Liquid Fund (now JM Income Fund), JM Equity Fund and JM Balanced Fund. Today, JM Financial Mutual Fund offers a bouquet of funds that caters to the diverse needs of both its institutional and individual investors. The mission is to manage risk effectively while generating top quartile returns across all product categories. The fund believes that to cultivate investor loyalty, and must provide a safe haven for their investments.

LIC ASSET MANAGEMENT COMPANY

LIC Mutual Fund was established on 20th April 1989 by LIC of India. Being an associate company of India's premier and most trusted brand, LIC Mutual Fund is one of the well-known players in the asset management sphere. With a systematic investment discipline coupled with a high standard of financial ethics and corporate governance, LIC Mutual Fund is emerging as a preferred Investment Manager amongst the investor fraternity Mutual Fund endeavours to create value for its investors by adopting innovative and robust investment strategies, catering to all segments of investors. LIC Mutual Fund believes in providing delight to its customers and partners by way of superior investment experience and unparalleled service thereby truly bring them Khushiyaan, Zindagi Ki.

UTI ASSET MANAGEMENT COMPANY

UTI mutual Fund is a professionally managed company led by Board of Directors and a dedicated and experienced management team. For purposes of the SEBI Mutual Fund Regulations, there are four sponsors such as State Bank of India, Life Insurance Corporation of India, Punjab National Bank and Bank of Baroda, each of which has the Government of India as a majority shareholder. T. Rowe Price Group, Inc., a global asset management company, is the major shareholder. They have a national footprint and offer schemes through a diverse range of distribution channels. As their distribution network includes 163 UTI Financial Centres, 273 Business Development Associates and Chief Agents (46 of whom operate Official Points of Acceptance and 33 other OPAs.

CANARA ROBECO ASSET MANAGEMENT COMPANY

Canara Robeco, are India’s second oldest asset management company, in existence since 1993, it is known as Canbank Mutual Fund. In 2007, Canara Bank partnered with Robeco group by way of a joint venture and the mutual fund was renamed as Canara Robeco Mutual

Fund. Robeco group was founded in 1929 in Rotterdam, is a pure play asset manager. Robeco group has an active investment style and is known as a global leader in sustainable investing. With a presence in 17 countries and over 909 employees, Robeco group has investment centers in key cities Subsequently, in 2007, Canara Bank partnered with Robeco(now a part of ORIX Corporation, Japan) and the mutual fund was renamed as Canara Robeco Mutual Fund. Since then, it has consistently been one of the fastest growing mutualfunds in India in terms of AUM.

KOTAK MAHINDRA ASSET MANAGEMENT COMPANY

Kotak Mahindra Asset Management Company Limited (KMAMC), a wholly owned subsidiary of Kotak Mahindra bank Limited (KMBL), is the Asset Manager for Kotak Mahindra Mutual Fund (KMMF). KMAMC started operations in December 1998 and has approximately 7.5 Lac investors in various schemes. KMMF offers schemes catering to investors with varying risk - return profiles and was the first fund house in the country to launch a dedicated gilt scheme investing only in government securities. The company is present in 76 cities and has 79 branches. The group has a net worth of Rs.7,911 crore and employs around 20,000 employees across its various businesses, servicing around 7 million customer accounts through a distribution network of 1,716 branches, franchisees andsatellite offices across more than 470 cities and towns in India and offices in New York, California, San Francisco, London, Dubai, Mauritius and Singapore.

BNP PARIBAS ASSET MANAGEMENT COMPANY

The BNP Paribas Asset Management is the investment management arm of BNP Paribas, one of the world’s major financial institutions. Since 2002, BNP Paribas Asset Management has been a major participant in sustainable and responsible investing. It is a recognized asset manager with EUR 421 billion in assets under management and advisory. It has a presence in more than 30 countries on 5 continents i.e. Europe, APAC, North America, Latin America, and EEMEA with more than 3,000 employees and more than 530 investment professionals, each team specialising in a particular asset class.

ADITYA BIRLA SUN LIFE ASSET MANAGEMENT COMPANY

It is established in 1994, Aditya Birla Sun Life AMC Limited, is a joint venture between the Aditya Birla Capital Limited and Sun Life AMC Investments Inc. It is primarily the investment manager of Aditya Birla Sun Life Mutual Fund, a registered trust under the Indian Trusts Act, 1882. Additionally, it has various other business lines such as Portfolio Management Services, Real Estate Investments and Alternative Investment Funds. The Portfolio Management Service is a highly customized service designed to seek consistent long-term results by adopting a research based, methodical approach to investing. The Real Estate Investment Advisory business is a platform that enables investors to access 'Real Estate Investments' opportunities meant for investors on a private placement basis. Aditya Birla Capital, through its subsidiaries and joint ventures, manages aggregate assets worth Rs. 3,000 plus billion and has a lending book of over Rs. 619 billion as of June 30th, 2019

SBI MUTUAL FUND

SBI Mutual Fund is one of India's largest and oldest MFs. The SBI Mutual Fund is a Joint Venture between one of India's largest and most profitable banks, the State Bank of India, and Amundi, which is a French asset management company. SBI Mutual Fund was set up on June 29, 1987 and was incorporated on February 7, 1992. It was India's second Mutual Fund after the Unit Trust of India started operations in 1963. In July 2004, the SBI decided to divest 37% of the Fund and roped in Amundi as a partner. It was the first Indian Mutual Fund player to launch a 'Contra' fund, called the SBI Contra Fund. SBI Mutual Fund is the first in India to launch an ESG Fund. An acronym for Environment, Social andGovernance, the fund provides resources for sustainable investment in major markets. According to the latest reports, the SBI Bank Mutual Fund has witnessed a 7% growth in AUM in 2019. This is more than any other competing MF.

ICICI PRUDENTIAL MUTUAL FUND

ICICI Prudential is the leading Asset Management company in the country focused on bringing the gap between saving and investment and creating long wealth for investor throughout a range of simple and relevant investment solutions. It is a joint venture between ICICI Bank, a well-known trusted bank in financial services in India and Prudential Plc, a UK's largest player in financial services sector. The AMC has witnessed the substantial growth in scale; from 2 location and 6 employees at the inception of JV in 1998, to a current strength of 2062 employees with a reach of over 300 locations reaching out to an investor base of more than 4 million investor. The company momentum has been exponential and it has always focused on increasing accessibility of its investors. The AMC endeavors to simply its investor's journey to meet its financial goals, and give a good investor experience through innovation, consistency and sustained risk adjusted performance.

NIPPON LIFE INDIA ASSET MANAGEMENT COMPANY

Nippon India Mutual Fund has been established as a trust under the Indian Trusts Act, 1882. Nippon Life Insurance Company is the Sponsor and Nippon Life India Trustee Ltd is the Trustee. Nippon India Mutual Fund has been registered with the Securities & Exchange Board of India (SEBI) on June 30, 1995. Nippon India Mutual Fund was earlier known as Reliance Mutual Fund. The name of Mutual Fund was changed from Reliance Mutual Fund to Nippon India Mutual Fund effective September 28, 2019. The main objectives are To carry on the activity of a mutual fund as may be permitted by law, and formulate and devise various collective schemes of saving and investment for people in India and abroad, and also insure liquidity of investments for the units holders and also to deploy funds thus raised so as to help the unit holders reasonable return on their saving.

HDFC ASSET MANAGEMENT COMPANY

HDFC AMC is India's largest and most profitable mutual fund manager with ₹3.8trillion in assets under management. Started in 1999, They were set up as a joint venture between Housing Development Finance Corporation Limited and Standard Life Investments Limited. During FY18-19 we carried out an initial public offering, and became a publicly listed company in August 2018. Currently, 20% of the company is owned by the public. HDFC Asset Management Company is the investment manager to the schemes of HDFC Mutual Fund. They offer a comprehensive suite of savings and investment products across asset classes, which provide income and wealth creation opportunities to the large retail and institutional customer base of 9.4 million live accounts. They work with diverse sets of distribution partners which helps us expand our reach. We currently have over 70 thousand empanelled distributors which include independent financial advisors, national distributors and banks. We serve our customers and distribution partners in over 200 cities through our network of 220 branches and 1221 employees.

INVESCO INDIA ASSET MANAGEMENT COMPANY

Invesco Asset Management (India) aims to serve investment needs of individual investors, corporate and institutions through mutual funds and sub-advised portfolios. It has an average asset base of over **Rs.** 25,664.50 **crores.** It has AUM of Rs.954.8 billion around the globe. It has a product portfolio which is managed by individually focused management teams to create optimum balance and results. They are committed to providing financial care and top-class service. They subscribe to sustainable business models and processes that factor in the dynamism of the business in fast changing market scenarios. Investors can expect best-in-class investment products that will leverage on the expertise and global resources of Invesco. It has portfolio managers, analysts and researchers across North America, Asia-Pacific and Europe and on-the-ground presence of more than 20 countries, serving clients in more than 120 countries and having More than 7,000 employees worldwide.

IDFC ASSET MANAGEMENT COMPANY

It was established in 2000, they manage client investment assets of over Rs. 1 trillion for over 1 million investor folios representing leading institutions, body corporates, family-offices and individual clients. They are promoted by IDFC Ltd, a widely held publicly listed company originally set up by the Government of India as India’s premier infrastructure finance company. IDFC AMC is today one of India’s Top 10 asset managers by AUM, with a seasoned investment team and deep, on-the-ground presence across over 46 cities, and serving clients across over 280 towns in India. They offer investment opportunities in Equity, Fixed Income, Liquid Alternatives such as India Equity Hedge Conservative and India Equity Hedge Tactical, Portfolio management services.

BARODA PIONEER ASSET MANAGEMENT COMPANY

Baroda Asset Management India Limited, investment manager to Baroda Mutual Fund, is a wholly owned subsidiary of Bank of Baroda and is positioned to serve the varied asset management needs of investors in India through a range of equity, debt and money market offerings. In 2008, Pioneer Global Asset Management acquired 51% stake in the AMC, which was renamed as Baroda Pioneer Asset Management Company Ltd. and PGAMbecame a co-sponsor of the Mutual Fund. The joint venture had Rs. 30 crores in AUM in June 2008 which grew to Rs. 12,159 crores in November 2018.Thave have moved out of thejoint venture and Bank of Baroda, India’s 2nd largest PSU Bank has now become the sole sponsor for the Mutual Fund. In 2018, Bank of Baroda acquired the entire shareholding of

UniCredit held in the AMC. Subsequently, the names of the AMC and Trustee have been changed to Baroda Asset Management India Limited and Baroda Trustee India Private Limited respectively, and the name of our Mutual Fund has been changed to Baroda Mutual Fund.

PRINCIPAL ASSET MANAGEMENT COMPANY

Principal Asset management Private Limited. is an investment manager of principal mutual fund which offers financial solutions short-term investment to mid-term investment to long-term investment financial goals set by investors. It follows a focused fund management and disciplines risk management strategy that is ably supported by a thorough credit and economic research. Principal AMC manages assets under various debt and equity funds with average AUM of Rs.6601.5 Crore. which is contributed by over 5.5 Lakh investors. At Principal Mutual Fund, they offer products that provide a mix of short term, mid-term and long-term investment financial goals. It is very well guided by integrity, trust and knowledge and also the team applies a disciplined and research-based approach to design investment tools to suits various income levels and portfolio.

L & T ASSET MANAGEMENT COMPANY

L&T Investment Management Ltd. is the asset management company of L&T Mutual Fund. The company is a wholly-owned subsidiary of L&T Finance Holdings Ltd., whichis a publicly-listed NBFC.L&T Mutual Fund is a mutual fund company in India. It caters to the investment needs of investors through various mutual fund schemes. The company claims to have sound investment management practices and a knowledgeable fund management team. The CEO is Kailash Kulkarni. The AUM of Rs.70944.93 Crore and headquarters are in Mumbai and founded in 2010. As of FY 2017-18, the company has a total income of Rs. 1,20,356.11 Lakh, profit before tax of Rs. 25,527.36 Lakh, and a profit after tax of Rs. 16,635.59 Lakh. L&T Investment Management Ltd. offers 146 schemes and has an asset under management worth Rs. 70,944 Crore as of 31 March 2019.

HSBC ASSET MANAGEMENT COMPANY

HSBC is one of the world’s largest banking and financial services organisations. They serve more than 40 million customers through our global businesses: Wealth and Personal Banking, Commercial Banking, and Global Banking and Markets. Their network covers 64 countries and territories in Europe, Asia, the Middle East and Africa, North America and Latin America. **HSBC Mutual Fund** serves more than 1 million customers through its 1000 plus offices spread all over India. It operates with a total corpus of Rs. 11553.0387 Crore as of 2019, and offers 103 different types of schemes under three types of options, equity, debt, and product add-on funds.

FRANKLIN TEMPLETON ASSET MANAGEMENT COMPANY

Franklin Templeton AMC has been founded in 1947 and dedicated to delivering exceptional asset management for institutional, retail, and high-net-worth clients. Find out what gives us our unique investment perspective. With more than 600 investment professionals[1] in 25 countries around the world, we are uniquely positioned to look beyond the largest or most visible securities in each market to spot smart global investments that meet our rigorous investment criteria. Our firsthand understanding of local culture, companies and economies sets us apart as a truly global partner. It has 42 Research offices, 12 global trading offices, 15 local asset management teams and 170 plus countries serves.

TAURUS ASSET MANAGEMENT COMPANY

Taurus Mutual Fund was amongst the first few private sector Mutual Funds to be registered with SEBI. It was constituted as a Trust on August 20, 1993.The Mutual Fund was registered with SEBI on Sept 21, 1993. HB Portfolio Limited is the present sponsor of the Fund & the Taurus Investment Trust Company Ltd is the Trustee. In 1999, a merger was announced between HB Mutual Fund & Taurus Mutual Fund. On amalgamation, the HB Asset Management Co. Ltd was renamed Credit capital Asset Management Co. Ltd. which then was re-christened Taurus Asset Management Co. Ltd. w.e.f. April 21, 2006. Subsequently in March 2002, Currently, the shares of the Taurus Asset Management Co. Ltd are held by HB Portfolio Ltd along with other HB Group Companies.

Chapter-5

MUTUAL FUND VS. OTHER INVESTMENT AVENUE

MUTUAL FUNDS VS. OTHER INVESTMENTS

From investors 'view point' mutual funds have several advantages such as:

- Professional management and research to select quality securities.
- Spreading risk over a larger quantity of stock whereas the investor has limited to buy only a hand full of stocks. The investor is not putting all his eggs in one basket.
- Ability to add funds at set amounts and smaller quantities such as $100 per month.
- Ability to take advantage of the stock market which has generally outperformed other investment in the long run.
- Fund manager are able to buy securities in large quantities thus reducing brokerage fees.

However there are some disadvantages with mutual funds such as:

- The investor must rely on the integrity of the professional fund manager.
- Fund management fees may be unreasonable for the services rendered.
- The fund manager may not pass transaction savings to the investor.
- The fund manager is not liable for poor judgment when the investor's fund loses value.
- There may be two many transactions in the fund resulting in higher fee/cost to the investor - This is sometimes call "Churn and Earn".
- Prospectus and Annual report are hard to understand.
- Investor may feel a lost of control of his investment dollars.

There may be restrictions on when and how an investor sells/redeems his mutual fund shares.

Company Fixed Deposits versus Mutual Funds

Fixed deposits are unsecured borrowings by the company accepting the deposit.Credit rating of the fixed deposit program is an indication of the inherent default risk in the investment.

The moneys of investors in a mutual fund scheme are invested by the AMC in specific investments under that scheme. These investments are held and managed in-trust for the benefit of scheme's investors. On the other hand, there is no such direct correlation betweena company's fixed deposit mobilization , and the avenues where these resources are deployed.

A corollary of such linkage between mobilization and investment is that the gains and losses from the mutual fund scheme entirely flow through to the investors. Therefore, there can be no certainty of yield, unless a named guarantor assures a return or, to a lesser extent, ifthe investment is in a serial gilt scheme. On the other hand, the return under a fixed deposit is certain, subject only to the default risk of the borrower.

Both fixed deposits and mutual funds offer liquidity, but subject to some differences:

The provider of liquidity in the case of fixed deposits is the borrowing company. In mutual funds, the liquidity provider is the scheme itself (for open-end schemes) or the market (in the case of closed-end schemes).

The basic value at which fixed deposits are uncashed is not subject to a market risk. However, the value at which units of a scheme are redeemed depends on the market. If securities have gained in value during the period, then the investor can even earn a return that is higher than what he anticipated when he invested. But he could also end up with a loss.

Early encashment of fixed deposits is always subject to a penalty charged by the company that accepted the fixed deposit. Mutual fund schemes also have the option of charging penalty on "Carly" redemption of units (through by way of an 'exit load'.) If the NAV has appreciated adequately, then even after the exit load, the investor could eam a capital gain on his investment.

Bank Fixed Deposits verses Mutual Fund:

Bank fixed deposits are similar to company fixed deposits. The major difference is that banks are generally more stringently regulated than companies. They even operate under stricter requirements regarding Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR).

While the above are causes for comfort, bank deposits too are subject to default risk. However, given the political and economic impact of bank defaults, the government as well as Reserve Bank of India (RBI) try to ensure that banks do not fail.

Further, bank deposits up to Rs 100,000 are protected by the Deposit Insurance and Credit Guarantee Corporation (DICGC), so long as the bank has paid the required insurance premium of 5 paise per annum for every Rs 100 of deposits. The monetary ceiling of Rs 100,000 is for all the deposits in all the branches of a bank, held by the depositor in the same capacity and right.

	BANKS	**MUTUAL FUNDS**
Returns	Low	Better
Administrative exp.	High	Low
Risk	Low	Moderate
Investment options	Less	More
Network	High penetration	Low but improving
Liquidity	At a cost	Better
Quality of assets	Not transparent	Transparent
Interest calculation	Quarterly i.e. 3^{rd} 6^{th} 9^{th}& 12^{th}.	Every Month
Guarantor	Guarantor is needed.	Guaran tor is not needed.
Account	Needed.	Not Needed.

Bonds and Debentures versus Mutual Funds

As in the case of fixed deposits, credit rating of the bond / debenture is an indication of the inherent default risk in the investment. However, unlike FD, bonds and debentures are transferable securities.

While an investor may have an early encashment option from the issuer (for instance through a "put" option), generally liquidity is through a listing in the market.

Implications of this are:

• If the security does not get traded in the market, then the liquidity remains on paper. In this respect, an open-end scheme offering continuous sale / re-purchase option is superior.

• The value that the investor would realize in an early exit is subject to market risk. The investor could have a capital gain or a capital loss. This aspect is similar to a MF scheme.

It is possible for a professional investor to earn attractive returns by directly investing in the debt mark et, and actively managing the positions. Given the market realities in India, it is difficult for most investors to actively manage their debt portfolio. Further, at times, it is difficult to execute trades in the debt market even when the transaction size is as high as Rs 1 crore. In | this respect, investment in a debt scheme would be beneficial.

Debt securities could be backed by a hypothecation or mortgage of identified fixed and / or current assets (secured bonds / debentures). In such a case, if there is a default, the identified assets become available for meeting redemption requirements. An unsecured bond /debenture is for all practical purposes like a fixed deposit, as far as access to assets is concerned.

The investments of a mutual fund scheme are held by a custodian for the bene fit of investors in the scheme. Thus, the securities that relate to a scheme are ring-fenced for the benefit of its investors.

Equity versus Mutual Funds

Investment in both equity and mutual funds are subject to market risk.

An investor holding an equity security that is not traded in the market place has a problem in realizing value from it. But investment in an open-end mutual fund eliminates this direct risk of not being able to sell the investment in the market. An indirect risk remains, because the scheme has to realize its investments to pay investors. The AMC is however in a better position to handle the situation

Another benefit of equity mutual fund scheme is that they give investors the bene fit of portfolio diversification through a small investment. For instance, an investor can take an exposure to the index by investing a mere Rs 5,000 in an index fund.

Advantages Of Mutual Funds Over Stocks?

- A mutual fund offers a great deal of diversification starting with the very first dollar invested, because a mutual fund may own tens or hundreds of different securities. This diversification helps reduce the risk of loss because even if any one holding tanks, the overall value doesn't drop by much. If you're buying individual stocks, you can't get much diversity unless you have $10K or so.

- Small sums of money get you much further in mutual funds than in stocks. First, you can set up an automatic investment plan with many fund companies that lets you put in as little as $50 per month. Second, the commissions for stock purchases will be higher than the cost of buying no-load fund (Of course, the fund's various expenses like commissions are already taken out of the NAV). Smaller sized purchases of stocks will have relatively high commissions on a percentage basis, although with the $10 trade becoming common, this is a bit less of a concern than it once was.

- You can exit a fund without getting caught on the bid/ask spread.
- Funds provide a cheap and easy method for reinvesting dividends.
- Last but most certainly not least, when you buy a fund you're in essence hiring a professional to manage your money for you. That professional is (presumably) monitoring the economy and the markets to adjust the fund's holdings appropriately.

Advantages Of Stock Over Mutual Funds

- The opposite of the diversification issue: If you own just one stock and it doubles, you are up 100%. If a mutual fund owns 50 stocks and one doubles, it is up 2%. On the other hand, if you own just one stock and it drops in half, you are down 50% but the mutual fund is do wn 1%. Cuts both ways.
- If you hold your stocks several years, you aren't nicked a 1% or so management fee every year (although some brokerage firms charge if there aren't enough trades).
- You can take your profits when you want to and won't inadvertently buy a tax liability. (This refers to the common practice among funds of distributing capitalgains around November or December of each year. See the article elsewhere in this FAQ formor more details.) •
- You can do a covered write option strategy. (See the article on options on stocks for mon more details.) You can structure your portfolio differently from any existing mutual fund portfolio. (Although with the current universe of funds I'm not certain what could possibly be missing out there!)
- You can buy smaller cap stocks which aren't suitable for mutual funds to in vest in.
- You have a potential profit opportunity by shorting stocks. (You cannot, in general, short mutual funds.)
- The argument is offered that the funds have a "herd" mentality and they all end up owning the same stocks. You may be able to pick stocks better.

Life Insurance versus Mutual Fund

Life insurance is a hedge against risk – and not really an investment option. So, it would be wrong to compare life insurance against any other financial product.

Occasionally on account of market inefficiencies or mis-pricing of products in India, life insurance products have offered a return that is higher than a comparable "safe" fixed return security - thus, you are effectively paid for getting insured! Such opportunities are not sustainable in the long run.

Chapter 6

HYPOTHESIS

HYPOTHESIS

Hypothesis 1

H0-The mutual fund is not considered as best investment avenue

H1- The mutual fund is considered as best investment avenue

Hypothesis 2

H0-The Systematic Investment plan in mutual Fund is not considered as best method for investment

H1- The Systematic Investment plan in mutual Fund is considered as best method for investment

Hypothesis 3

Ho- The investors don’t prefer to invest in mutual funds
H1- The investors do prefer to invest in mutual funds

Chapter 7
LITERATURE REVIEW

REVIEW OF LITERATURE

Review of literature is very important to give better understanding and insight necessary to develop a broad conceptual framework in which a particular problem can be examined. It helps in the formation of specific problem and helps acquaint the investigator to what is already known in relation to the problem under review and it also provides a basis for assessing the feasibility of the research. Review of literature is important to a scholar in order to know what has been established and documented as there are critical summaries of what is already known about a particular topic. Therefore a review of literature helps in relating the present study to the previous ones in the same field.

The review of some of the literature related to the performance of mutual fund is shown below:-

Gupta and Jain (2008) on the basis of an all-India survey of 1463 households found the preferences of investors among the major categories of financial assets, such as investment in shares, indirect investment through various types of mutual fund schemes, other investment types such as exchange-traded gold fund, bank fixed deposits and government savings schemes. The study provides interesting information about how the investors' attitude towards various investment types are related to their income and age, their portfolio diversification practices, and the over-all quality of market regulation as viewed by the investors themselves.

Jasmeen (2009) has found in her study, 'Investment Choice of Individual Investors' that majority investors preferred low risk investment but considerable number have gone for high risk investments. This could be possible because of awareness created among Indian individual investors regarding investment climate and infused confidence among investors by being ethical and transparent. The study also indicated that the association between profile of respondents' age, gender, religion, qualification, income and profession and the risk taken while making investment is not significant.

AparnaSamudra and Bhurghate (2012) carried out a study to understand the investment behavior among the middle class investors from Nagpur. The study was carried out to examine the preference of the investment instruments and investment pattern of the middle class households along with the objective of 52 investment. The investment options considered for the study were Bank deposits, shares, mutual funds, real estate, Kisan Vikas Patrika and post office deposits. A sample size of 300 households was used for the study. Statistical tools like percentage and mean were used for carrying out the analysis. The study found that bank deposit was the most preferred investment option followed by life insurance Investment in provident fund and post office deposit were at the third and fourth place. This is similar to the findings of Nupur Gupta and Vijay Agarwal (2013).Real estate was found to be the least preferred investment avenue. Investment in equity was not figuring in the preferred investment avenue across all age categories.

Joseph and Prakash (2014) have revealed in their paper 'A Study on Preferred Investment Avenues Among the People and the Factors Considered for Investment', that to have an insight into different investment avenues available and to understand the preferred investment avenue among the people of Bangalore City. In the present day world, new financial products are available. It has become difficult and confusing to choose the best options due to lack of proper financial knowledge to the common man to decide the factors which are considered for making sound investment decisions.It is further analyzed that investors are not much aware about investment in stock exchange and equity and are more inclined towards traditional investments like bank deposits, insurance, post office savings etc .Awareness programs should be introduced by the government and stock broking firms to make people aware about investment options with their merits n demerits so right decisions are taken for their personal finance

RESEARCH GAP

After reviewing literature related to the mutual fund industry in India, it is evident that although extensive work has been done since the inception of Mutual fund on the related topicslike the performance of mutual fund schemes, investors preferences for the different mutual fundsschemes, growth of the mutual fund industry, the researcher feels that, a detailed work is not being undertaken to assess of best investment avenue in India. Hence, the topic entitled “A study of Mutual Fund as an Investment Avenue” has been undertaken for the current study

Chapter 8
RESEARCH METHODOLOGY

RESEARCH METHODOLOGY

Research Methodology is a way to systematically solve the research problems. It may understand as a science of study how research is done scientifically.

Primary Data: A research design is purely and simply the framework of plan for a study that guides the collection and analysis of data. Primary data-collected through structured questionnaire will be done.

Analysis tool will be used:

- Percentage
- Graphs & charts
- Table forms

Secondary Data: Secondary data is the data that have been already collected by and readily available from other sources. Such data are cheaper and more quickly obtainable than the primary data and also may be available when primary data cannot be obtained at all. The sources of secondary data are as follows

- Newspapers, News channels, internet-websites, magazines, books-libraries, other projects.

DATA COLLECTION DESIGN

Sample Design is a definite plan to obtain a sample from the sampling frame. The method which is adopted by the researcher in selecting the unit of sampling from the population is called sampling design.

Sample Size: It represents how many candidates you have chosen to fill up your questionnaire. I had chosen sample of 71 candidates.

Method of Data Collection:-

The data was collected using questionnaire from professionals/Common man like those who wants invest in mutual funds and other Investment option.

A study on research design which has been made use of is the descriptive research design which describes the awareness and perception of the population that is being studied.

In this we used the Quantitative research.

Primary data has been collected the information through survey.

Relevance of Study

The scope of project is mainly concentrated on different category of the mutual fund such as equity funds, debt funds and other funds as well. The project is mainly based on the preferences of investor in various investment avenue available

The main purpose of doing this project was to know about mutual fund and its functioning. This helps to know in details about mutual fund industry right from its inception stage, growth and future prospects. It also helps in understanding different schemes of mutual funds. Because my study depends upon prominent funds in India and their schemes like equity, income, balance as well as the returns associated with those schemes.

Chapter 9
OBJECTIVE

OBJECTIVE

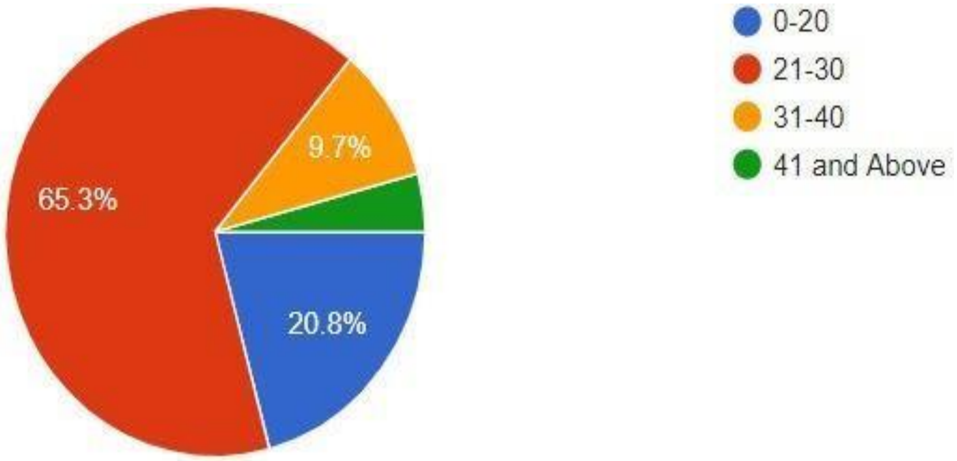
- The main objective of the study is to find out the investor's preference towards various investment avenues like fixed deposits, post-office schemes, bonds / debentures, share market, mutual funds and insurance.
- To give a brief idea about the benefits available from Mutual Fund investment.
- To know the preference of common investors for investment in India
- To give an idea of the types of schemes available.
- To discuss about the market trends of Mutual Fund investment.
- To study some of the mutual fund schemes.
- To study some mutual fund companies and their funds.
- Observe the fund management process of mutual funds.
- Explore the recent developments in the mutual funds in India.
- To give an idea about the regulations of mutual funds

Chapter 10
DATA ANAYSIS AND INTERPRETATION

DATA ANALYSIS AND INTERPRETATION

Age wise Distribution of Respondent

Age of Respondent	No. Of Respondent	Percentage
0-20	15	20.8%
21-30	47	65.3%
31-40	7	9.1%
41-and Above	3	4.2%

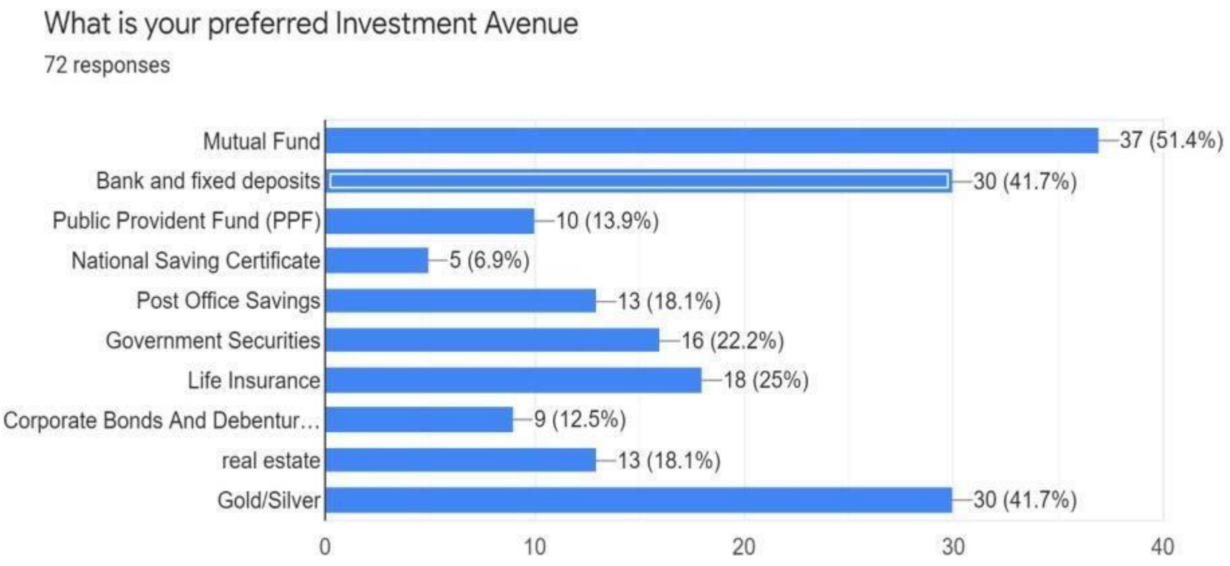


Investment preference and decision-making process could change as an individual grows older. Respondents were classified in terms of age, which is presented in table. Majority of the respondents (65.3%) were from the age group of 21 – 30 years, followed by 0-20 age group. Respondents below 20 were less in number. Respondents from the 21-30 age groups were more willing to participate in the survey as comparison above 41 years

Analysis of Preferred Financial Products of the Respondent

There could be various reasons for an investor to invest in a particular type of financial product. A study of the current investments held by the respondents will provide insight on the various financial products preferred by investors.

Investment Avenues	No. of Respondent	Percentage Shared
Mutual funds	37	51.4%
Bank and Fixed Deposits	30	41.7%
Public Provident Fund	10	13.9%
National Saving Certificate	5	6.9%
Post Office Saving	13	18.1%
Government Securities	16	22.2%
Life Insurance	18	25%
Corporate Bonds and Debentures	9	12.5%
Real Estate	13	18.1%
Gold/Silver	30	41.7%

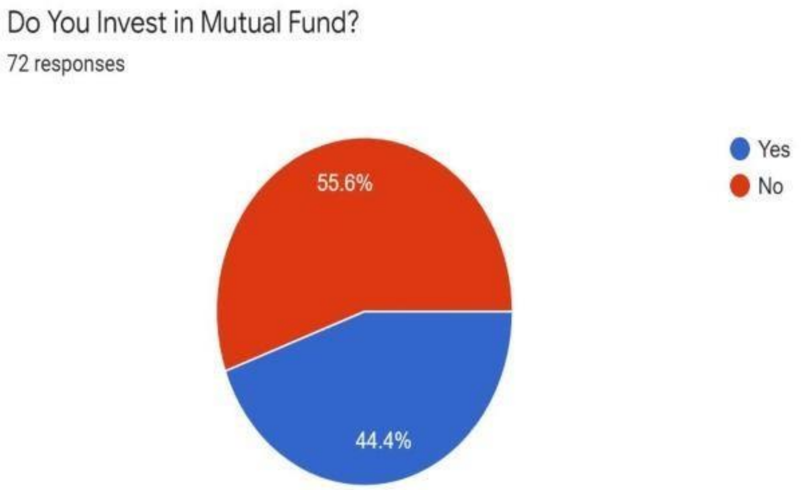


It can be observed from table that, majority of the respondents hold Mutual Fund (51.4%) followed by Bank and Fixed Deposits (41.7%), Gold and Silver (41.7%) and Life Insurance (25%). All other financial product holding was on lower side.

Trends of Respondents Investment in Mutual Funds

India is predominantly known as the next big investment economy, reflected by high savings and investment rate, as compared to other world economies. In today's ever changing market environment, mutual funds are considered upon as a transparent and low cost investment avenue, which appeals a fair share of investor attention leading to growth of the industry. The financial sector in India is unceasingly evolving for which credit goes to regulatory modifications being undertaken, which is leading market participants like the asset management companies (AMCs) and distributors to restructure their strategies and adopt business models which will yield sustainable benefits both for the investor and also for the economy as a whole.

Option	Respondent Opinion	Percentage Share
Yes	40	55.6%
No	32	44.4%

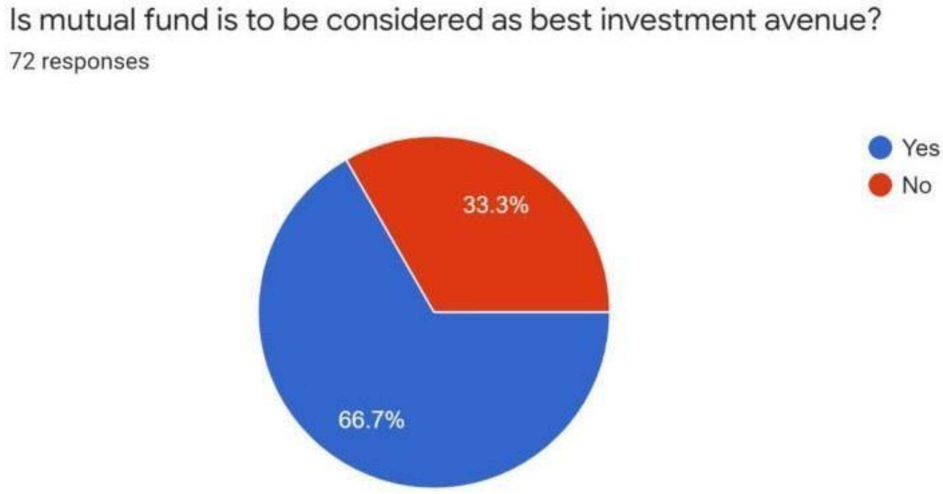


It can be observed from table and figure that most of the respondent are preferred to investment in mutual Fund. The "Yes" saying respondent are 55.6% and "No" saying respondent are 44.4%.

Respondent Opinions about Mutual Fund Best Investment Avenue

The advent of Mutual Funds changed the way the world invested their money. The start of Mutual Funds gave an opportunity to the common man to hope of high returns from their investments when compared to other traditional sources of investment.

Best Investment Avenue	**Opinion from Respondent**	**Percentage Share**
Yes	48	66.7%
No	24	33.3%

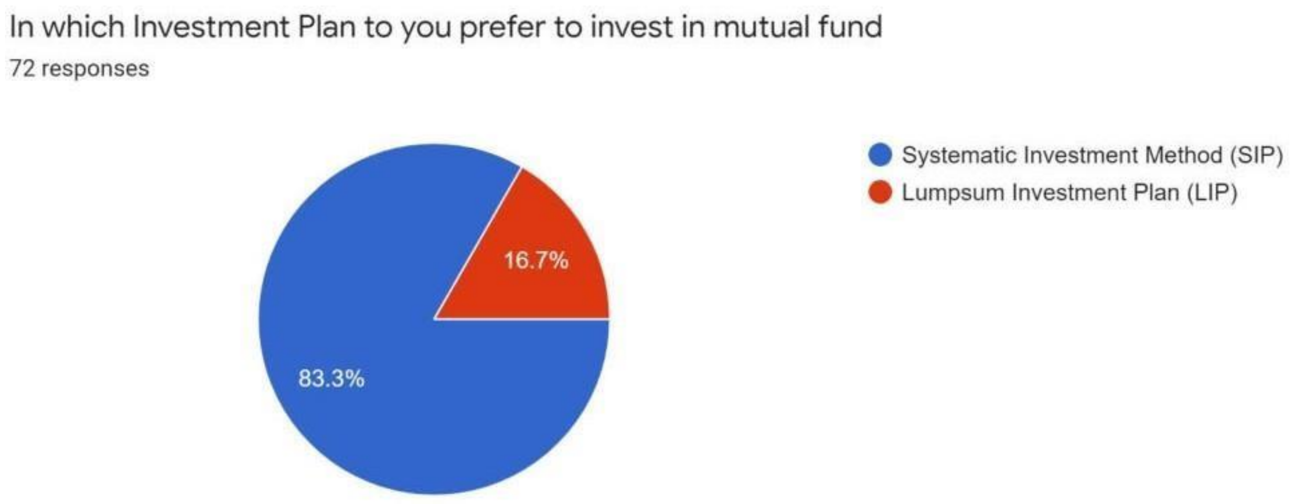


From the above table it would be concluded that 66.7% respondents considers the mutual fund as best investment avenue and 33.3% of respondents considers that mutual fund is not a best investment avenue

Respondent Opinion on Mutual Investment Plan

A Systematic Investment Plan (or SIP) is an investment mode through which you can invest in mutual funds. As the term indicates, it is a systematic method of investing fixed amounts of money periodically. This can be monthly, quarterly or semi-annually etc. A lump sum investment (LIP) is depositing the entire amount at one go. Lump-sum investment is a popular way of investing in mutual funds. If you invest the entire amount available with you in a mutual fund scheme, it is called the lump-sum mutual fund investment.

Mutual Fund Investment Plan	No. Of Respondent	Percentage Share
Systematic Investment Plan (SIP)	60	83.3%
lump sum investment Plan (LIP)	12	16.7%



Most of the respondents prefer systematic investment plans and got their source of information primarily from banks and financial advisors. The Systematic Investment plan has majority share that is 83.3% and Lumpsum Investment plan has a share of 16.7%.

Chapter 11
FINDINGS

FINDINGS

- There are wide range of products available in mutual in the Indian market.
- A mutual fund is a type of financial vehicle made up of a pool of money collected from many investors to invest in securities like stocks, bonds, money market instruments, and other assets. Mutual funds are operated by professional money managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.
- The aggressive market that can tap any individual is financial services. Investors have their individual risk appetite and believe in the market they are entering in.
- They have been identified as one of the important factors pushing up the market prices of securities.
- From Respondents it self it is found that the most of the peoples are investing in mutual fund, They consider that it is they that it is best investment avenue in the market available.
- It is found that most of the investors invest in Systematic Investment Plan Method

Chapter: 12

SUGGESTION

- Advertisement on television is the main source of attraction so the company must advertise its products heavily.
- Product must be improved.
- There should be provision of complain suggestion boxes at each branch.
- Investment made by the investors needs to be prioritized in respect to their objectives.
- Depending upon their age the investors should go for equity exposure.
- Investors should look for long term capital appreciation and invest in diverse asset class

Chapter: 13

CONCLUSION

Mutual Funds now represent perhaps most appropriate investment opportunity for most investors. As financial markets become more sophisticated and complex, investors need a financial intermediary who provides the required knowledge and professional expertise on successful investing. As the investor always try to maximize the returns and minimize therisk. Mutual fund satisfies these requirements by providing attractive returns with affordable risks: The fund industry has already overtaken the banking industry, more funds being under mutual fund management than deposited with banks. With the emergence of tough competition in this sector mutual funds are launching a variety of schemes which caters to therequirement of the particular class of investors. Risk takers for getting capital appreciation should invest in growth, equity schemes. Investors who are in need of regular income should invest in income plans.

The stock market has been rising for over three years now. This in turn has not only protected the money invested in funds but has also to helped grow these investments.

This has also instilled greater confidence among fund investors who are investing mo into the market through the MF route than ever before.

Reliance India mutual funds provide major benefits to a common man who wants to make his life better than previous.

India's largest mutual fund, UTI, still controls nearly 80 per cent of the market. Also, the mutual fund industry as a whole gets less than 2 per cent of household savings against the 46 per cent that go into bank deposits. Some fund managers say this only indicates the sector's potential. "If mutual funds succeed in chipping away at bank deposits, even a triple digit growth is possible over the next few years.

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WEBSITE:

www.utimf.com

www.reliancemutual.com

www.amfiindia.com

SEARCH ENGINE:

www.google.com

www.altavista.com

Zwww.yahoo.com

Questionnaire

QUESTIONNAIRE ON INVESTORS ATTITUDE

TOWARDS MUTUAL FUNDSPERSONAL PROFILE

Name of the Investor:

Age :

- 0-20
- 21-30
- 31-40
- 41 and above

Gender : O Male O Female

What is your preferred Investment Avenue?

- [ ] Mutual funds
- [ ] Bank and Fixed Deposits
- [ ] Public Provident Fund
- [ ] National Saving Certificate
- [ ] Post Office Saving
- [ ] Government Securities
- [ ] Life Insurance
- [ ] Corporate Bonds and Debentures
- [ ] Real Estate
- [ ] Gold/Silver

Do you invest in Mutual Fund?

- Yes
- No

Is mutual fund is to be considered as best investment avenue?

- Yes
- No

In which Investment Plan to you prefer to invest in mutual fund?

- Systematic Investment Method (SIP)
- Lumpsum Investment Plan (LIP)