ROLE OF MUTUAL FUNDS INVESTORS IN BOOSTING INDIAN ECONOMY

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Abstract

The mutual fund plays a major role in the investment pattern in today's world. Now a days all are invested to have a investment in any forms. Most of the people like to have investment with less risk. Expert professionals generally invest the amount in shares where they expect a steady return, and some amount in shares of different companies which may be risky but there can be more return. So, they form corpus of portfolio to diversify the funds invest amount in different companies shares to minimize the risk. The professionals are always having an eye on the market and they also well versed in this area. So people get their amount invested in mutual funds as they are less risky in nature. Indian mutual funds industry offers of plethora of schemes and serves broadly all types of investors investment goals vary from person to person. Someone wants security, others might give more weight on returns, someone plans to invest his funds for his child's education while someone might save for his retirement. Investors of all categories could choose to invest on their own in multiple options but opt for mutual funds for the sole reason that all benefits come in a package. This paper will discuss how mutual funds investment beneficial for the customers.

Keywords : Mutual Funds, Investors, Risk

1. Introduction

A mutual funds is a common pool of money into which investors place their contributions that are to be invested in different types of security. Mutual funds are preferred investment for most of the investors of its unique nature of less risky. It is the duty of fund managers to diversify our investments for better return and we need not have to be updated with all the market happenings. We spend our time on doing research on each stock and manage our funds professionally. A mutual fund is a cluster of different investments like stocks, bond and cash that we can make. Investing in mutual fund offers us the liquidity to enter & exit anytime, diversify risk, flexibility to invest in small amounts, and easy accessibility.

A mutual fund offers investors the opportunity to pool their money with other investors in an investment that is managed by professional investment managers. Mutual funds invest in stocks, bonds, or other securities according to each fund's objective. Mutual funds are one of the most highly utilized investment options among average investors and financial professionals alike.

i) History of Mutual Fund

The mutual funds industry was established in 1963 with the formation of unit trust of India(RBI) and the government of India. The objective then was to attract small investors and introduce them to market investments. The UTI was established as a statuary corporation in February 1964 underneath the UTI Act 1964. It was established with the target of mobilizing the savings of the community and channeling them into productive investment. Since then, the history of mutual funds in India can be broadly categorized into five different phases.

ISSN: 2278-4632
Vol-10 Issue-5 No. 3 May 2020

First phase: 1964-1987

Second phase: 1987-1993 - Entry of public sector mutual funds.

Third phase: 1993-2003- entry of private sector mutual funds.

Fourth phase: since February 2003-April 2014.

Fifth phase: May 2014 as till date.

ii) General Terms used in Mutual Fund Industry

- **Benchmark**

  A benchmark is the standard against which a mutual fund's performance is measured. It is used as a standard for the fund's performance and gives meaning to it returns.

- **SIP (systematic investment plan) - the winning recipe to build wealth.**

  SIP's do not just make it easier to start investing, they also help make it a habit by automating our investments. Anyone can start investment with as low as Rs.1000.

- **Equity Linked Savings Scheme (ELSS)**

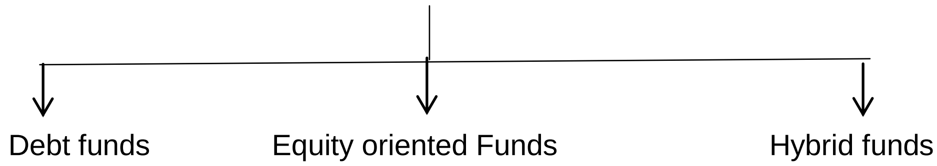
  ELSS, known as equity, linked savings scheme, is diversified type of equity mutual fund that is certified for tax exemption under section 80C of the Income Tax Act. ELSS is the most preferred mutual fund amongst investors as it offers tax benefits and increase in the price or value of assets. ELSS has a lock-in period of three years, which means that one cannot sell these funds before three years from the date of purchase. Deduction of up to Rs.1.5 lakh can be availed on the amount invested on these tax savings funds. One is required to submit the supporting documents to claim deductions.

- **ETF(Exchange Traded Funds)**

  An Exchange Traded fund is an investment fund traded on stock exchanges, much like stocks. An ETF holds assets such as stocks, commodities, or bonds and generally operates with an arbitrage mechanism designed to keep it trading close to its net asset value, although deviations can occur occasionally.

iii) Kinds of Mutual Fund(Ratio of equity and debts)

Kinds of mutual funds



ISSN: 2278-4632
Vol-10 Issue-5 No. 3 May 2020

- **Debt Funds**

  It usually offers fair returns to the investor and are considered less risky. These funds invest in government securities and corporate bonds.

- **Equity Oriented Funds**

  Equity funds invest in stocks and try to give the investor an increase in the price of assets or the money invested. Equity funds have a high rate of risk because the returns are totally dependent on the stock market and its movement.

- **Hybrid Funds**

  Hybrid Funds invest in both equity and fixed income securities. Debt to equity ratio varies between 0-100%. These funds protect the investor against financial risks in securities transactions.

iv) Types of Mutual Funds (By Structure)

a) Open Ended Funds

b) Closed Ended Funds

c) Interval Funds

v) Types of Mutual funds(Investment Objectives)

a) Growth Funds

b) Financial Gain Funds

c) Balanced Funds

d) Securities Industry Funds

e) Load Funds half dozen

f) No- load Funds

2. Objectives of the Study

i) To study the investment pattern of Indian investors.

ii) To find out the awareness level of investors regarding mutual funds.

iii) To evaluate the performance of mutual funds and facilitate the retail investors in decision making.

iv) To understand the function of an asset's management company.

v) To analyse the trends in returns of selected mutual funds.

3. Research Methodology

The research is based on secondary data source. Data have been collected from different journals, books, periodicals, websites, reports published by SEBI and AMFI updates.

4. Opportunity for India after Covid-19

India delivered good returns going up to 2009-10, and after that, our market has not given any returns to investors in dollar terms. In March 2020 alone investors lost much of the gains they made over the years. BSE benchmark Sensex lost more than 23 percent in one month. But in the month of April 2020, benchmark Sensex lifted over 14 percent, while BSE mid-cap index climbed 14 percent and BSE small cap index 15 percent.

Now we have an opportunity to grab FII and FDI as multinational companies want to leave China, the second largest economy of the world. So, our government should approach to these multinational companies inviting them to invest in India to boost make-in India concept.

- Accelerate make in India
- Develop components' ecosystem to enable complete manufacturing rather than just assembly
- Work on advantages like lower labour costs (one third of china), skills availability
- Manufacture for global market
- Encourage experts

5. Preparation Before Investment in Mutual Funds

Over the years, Mutual Funds have evolved to become a household name in investments. A Mutual Fund, as the name suggests, collects funds from investors with similar financial goals and invests them in a portfolio of assets with a clear and defined investment objective. With hundreds of Mutual Fund Schemes and several types of mutual fund schemes in India, a new investor can find the process a little overwhelming. In today's article, we will offer eight quick tips to help you invest in Mutual Funds for good returns.

i) **Prepare Well**

Any successful investment has weeks of preparation (if not more) behind it. As a new investor, seeking the advice of a financial adviser is a good idea. However, if you want to learn and invest yourself, then start by asking yourself some pertinent questions like:

What are my financial goals? Do I want to save for a comfortable retirement? Or, do I just want a cushion of a strong corpus behind me? Also, how long do I want to invest for – 5/10/15 years?

Think about the answers well as they will determine the choice of investments you make.

ii) **Assess your Risk Preference**

All investments have some element of risk associated with them. Assess how much risk you are willing to take. A general mantra of investments is: higher risks=higher returns. Therefore, it is important to have a clear idea about your risk tolerance in advance.

iii) **Understand the different types of Mutual Funds Schemes**

Mutual Fund schemes are usually divided based on the asset class, investing style, objectives, etc. Ensure that you understand these basics well as the knowledge will help you find suitable mutual fund schemes to invest in.

ISSN: 2278-4632
Vol-10 Issue-5 No. 3 May 2020

iv) **Determine the optimum Asset Allocation**
Asset allocation is how you want to divide your investments between various asset classes like real estate, shares, bonds, etc. It is a product of your financial goals, risk preference, and investment horizon.

v) **Start selecting schemes**
Now that you have the asset allocation in place, start looking for schemes which can help you achieve your investment objectives. There are many factors that you need to consider before choosing a theme like performance, expense ratio, fund managers, etc. Remember to keep your goals and risk tolerance in mind while selecting the schemes.

vi) **Create a Mutual Fund Portfolio**
A Mutual Fund Portfolio helps you monitor and manage your investments easily and efficiently. Diversify well and create a portfolio that works towards your financial goals.

vii) **Know the tax laws**
Tax can eat into your returns. Therefore, it is important to know how much tax you will be liable for when you redeem your investments. Also, some investments offer tax benefits (like Equity Linked Savings Scheme). Ensure that you learn about the tax implications before investing.

viii) **Take financial advice if necessary**
While investing can be exciting and fun, it is important to seek assistance if you feel that you are guessing more than analyzing. Talking to a financial advisor can always help.

6. Advantages of Professional Expertise

a) Saves time

b) Small investment amount

c) Tax advantages a

d) Liquidity

7. Advantages of Mutual Funds

Though these schemes come with a mandatory lock-in period of three years, we should always invest in them with a horizon of at least five to seven years. There is no need to sell our investments on completion of the mandatory lock-in period. The Indian equity market hardly deliver any return to investors in dollar terms over the past 10 years. Every Indian investor has become poorer in dollar term over this period. Indian economy has been trending downwards over the past few years. Due to the outbreak of the novel corona viruses equity market all over the world has been collapsed. Few advantages of mutual funds are as below:

i) Low minimum investment

ii) Lower cost

iii) Systematic investment plans (SIPs)

iv) When anyone buy mutual fund, he buys a collection of what that mutual fund invested

v) Portfolio diversification

vi) Professional management

vii) Diversification of risks

viii) Wide option to suit risk-return profile

ix) Liquidity

x) Convenience and flexibility

xi) Transparency

8. Limitations of Mutual Funds

A mutual fund is a pool of money from many investors that is used to invest in one portfolio of securities for the benefit of all the investors in the fund. Mutual fund investors buy shares in the mutual fund. Each share represents a piece of every investment made by the money managers that oversee the mutual fund. Although mutual funds allow us to invest in many sectors of the economy at once, mutual funds do have limitations worth considering before you invest.

i) Managed over costs

ii) No tailored portfolios

iii) Managing a portfolio of funds

iv) Delay in redemption

9. Myths Regarding Mutual Funds

i) Mutual funds invest solely in shares.

ii) Mutual funds are at risk of terribly high risk.

iii) Mutual funds are terribly new within the money market.

iv) Mutual funds do not seem to be reliable and folks seldom invest in them.

v) The nice factor regarding mutual funds is that we simply do not have to attend them.

10. Conclusion

Every investment is inherently connected with risk. Its existence and diversity among various types of investments is one of the driving forces behind the development of the capital market. The risk has also caused emergence and development of alternative investments. Institutional investors, including the banks, pension funds, large companies as well as individual investors within the wealth management sectors constitute a dominant group of the investors on the alternative investments markets. Today, mutual funds have emerged as strong financial intermediary and are the fastest growing segments of the financial services sectors in India. Currently,

Indian mutual funds industry is undergoing a transformation phase; adapting to the various regulatory change in entry load, document produces and on the tax structure which have made investors confused whether to invest in the banks or mutual funds. It is better to invest systematically through SIP which may prove profitable to the investors as units are indirectly bought by them at different prices existing In the market.

ISSN: 2278-4632
Vol-10 Issue-5 No. 3 May 2020

- A mutual fund brings together a group of people and invests their money in stocks, bonds and other securities.
- There are many types of mutual funds according to their qualities of risk.
- Mutual funds bear lots of costs.
- Before investing in mutual funds, one has to read paper before investment as it is subject to market risks associated with it.
- We find evidence that mutual funds herding impact stock prices to a much greater degree.
- Positive consensus recommendation revisions result, most frequently, in a herd of funds buying a stock, while negative revisions result, most frequently, in a herd of funds selling.
- Mutual funds react more strongly to analyst information when it appears to be more credible.
- Like all securities, mutual funds are subject to market risk. This is because there is no way to predict what will happen in the future or whether a given asset will increase or decrease in value. Because the market cannot be accurately predicted or completely controlled, no investment is risk free.

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