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Mutual Funds In India: Scenario, Status And Classification

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Abstract
According to the present findings, the majority of individuals are afraid to invest in newer types of investments like mutual funds and instead choose to mitigate risk by choosing less risky investment options like recurring deposits and similar products. Additionally, those who invest in mutual funds choose high-risk portfolios and schemes while simultaneously wanting to use components with a moderate level of risk. Another observation is that the majority of working women do not favour these kinds of investments. The study's primary goal is to determine how investors see mutual funds. High returns, security, tax exemption, flexibility, liquidity, risk diversification, market trend, choice of plan, dependability, and affordability are the primary factors influencing investment behaviour. Mutual funds invest in a range of financial instruments, including stocks, bonds, and shares, by pooling funds from different participants. These are managed by a qualified fund manager, and dividends are used to pay returns. Some plans promised fixed returns with no risk, while others offered payouts based on price and market changes. The acquisition or sale of mutual funds must be made in units and is based on NAV (Net Asset Value), taking exit and entry load factors into consideration. This study looked at how customers perceived mutual funds, including the plans they preferred, the schemes they chose, and the justifications for those decisions. It also looked at various investment options that consumers preferred alongside and in addition to mutual funds. Comparable to bank savings plans, recurring deposits, bonds, and stocks. During COVID-19 very minor effect on the mutual funds which are very important sources for the general peoples.

1. Introduction

For the people, investing is a crucial component. Lack of awareness and information about investing opportunities and their significance in people's lives. The COVID 19 epidemic affected India in March 2020. Due to this, it had an impact on every single area of the global economy. This study's primary goal is to examine how COVID 19 has affected retail investors' investment choices as well as mutual fund investments based on the influx and outflow of cash and assets under management (Nakum K., 2021). Hedge funds are not accessible to the general public and are not mutual funds. For retirement plans like the 401(k) in the United States, they are frequently the most well-liked type of investment. There are advantages and disadvantages to direct investment in individual shares vs mutual funds. For retirement plans like the 401(k) in the United States, they are frequently the most well-liked type of investment. Stock diversification and professional account management are two of mutual funds' main advantages. The expense of the fees and charges is the main drawback. The three different forms of mutual fund structures are open-end funds, unit investment trusts, and closed-end funds. Exchange-traded funds (ETFs) are open-end funds or unit investment trusts that trade on a platform like the New York Stock Exchange. Open-end funds that cannot be sold on an exchange may be sold back to the fund management at the end of each business day. The two types of mutual funds are actively managed funds that imitate an index's performance and charge higher fees while attempting to outperform other indexes. Investment objectives for mutual funds are described in its prospectus, which includes information about the fund's investment aim, investing strategy, and permitted investments. Mutual funds can invest in a broad variety of assets. A mutual fund's portfolio manager or managers regularly keep an eye on the investments made by the fund.

Many people clarified the fundamental idea of mutual funds and emphasised the significance of those funds in the context of the Indian capital market. They discussed a wide range of topics, including investor protection, investor expectations, mutual fund growth, and mutual fund regulation. Vidya Shankar (1990), Sarkar (1991), Agrawal (1992), Agrawal & Jain (1991), Sharma C. Lall (1991), Barua & Varma (1991), Sharma (2006), Sahai, & Kumar (2020), Kami et al (2018), Krishnan (1999), and Ajay Srinivasan (1999) are a few examples. Rajarajan (2003) emphasized the segmentation of investors based on their traits. Rajarajan (2003) examined the characteristics of investors based on the magnitude of their investments as well as the connection between the stages of investors' life cycles and their investment patterns. According to Friend et al.'s (1962) detailed and meticulous research of 152 mutual funds, mutual fund schemes produced an average annual return of 12.4% while their composite benchmark produced a return of 12.6%.

Irwin, Brown, and FE conducted a study in 1965 on the effects of investment strategy, portfolio turnover, mutual fund performance, and stock market impact. They found that the movement of stock market prices was considerably impacted by mutual funds. They found that, generally speaking, funds did not perform better than the composite markets and that there was no reliable association between portfolio turnover and fund performance. A method for evaluating the performance of a mutual fund was developed in 1974 by Jack Treynor and is known as the reward to volatility meter. The average excess return on the portfolio serves as its definition.

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The reward-to-variability ratio is derived by dividing the average excess return on the portfolio by its standard deviation. It was first proposed by Sharpe in 1966. Sharpe (1966) developed a composite performance evaluation metric and imported the superior performance of 11 out of 34 funds between 1944 and 1963. Michael C. Jensen conducted an empirical analysis of 115 mutual funds from 1954 to 1964 in 1967. The results show that these funds cannot beat a buy-the-market and hold strategy by 30%. The free gross management expenses were ignored in the analysis. There was little proof that a certain fund could do significantly better than investors had predicted based only on chance.

A famous study by Jensen (1968) that employed an absolute measure of performance based on the Capital Asset Pricing Model found that mutual funds did not appear to achieve anomalous performance when transaction costs were taken into account. Hiremath et al. (2010) stressed that the time period, fund type, and benchmark of choice all affect the findings obtained from return estimates when evaluating risk-adjusted performance. This successfully reproduced the Jensen and Shape results using yearly data for 82 common stock funds for the 1948–1967 period. The results presented contradictory outcomes in comparison to the Sharpe and Jensen measures. Fama (1972) devised a method to evaluate the performance of managed portfolios and suggested that it could be separated into multiple elements. In his research, John McDonald (1974) explored the relationship between reported risks and returns of fund objectives. The findings indicated that fund managers generally maintained their portfolios within the specified risk level. Surprisingly, some lower-risk funds had higher risk compared to the riskiest category. James R.F. Guy (1978) utilized Sharpe and Jensen measures to assess the risk-adjusted performance of U.K. investment trusts and found that none of the trusts exhibited superior performance to that of the London Stock Exchange Index. Henriksson (1984) discovered that mutual fund managers were unable to accurately time the return on the market portfolio. The study indicated that the funds' market risk exposures changed in response to market indications, but the fund managers failed to time the market correctly. Grinblatt and Titman (1989) reported that certain mutual funds consistently achieved abnormal returns by selecting assets that provided positive excess returns. Richard A. Ippolito (1989) found that, overall, mutual funds offer better returns. However, these returns are offset by costs and load charges, which aligns with the efficient market hypothesis. In Singapore, Prasad et al. (2006) conducted a significant study on unit trusts and discovered that their performance varied widely from the market, with approximately half of the funds outperforming the market on a risk-adjusted basis, while the other half underperformed. Cole (2023) investigated the efficiency of Australian equity trusts and found that portfolio managers faced the challenge of a lack of overall positive excess risk-adjusted returns.Warther (1995) conducted a study titled "Aggregate Mutual Fund Flows and Security Returns" and concluded that aggregate security returns are significantly related to concurrent unexpected cash flows into mutual funds, but not related to concurrent expected flows. The study showed a 5.7 percent increase in the stock price index and an unexpected flow equivalent to 1 percent of all stock fund assets. The returns of 32 assets held by the funds were linked to fund flows, but not the returns of other types of securities. The study revealed evidence of both a positive relationship between flows and subsequent returns, as well as a negative relationship between subsequent flows and returns. Until the end of July 2020, the stock market had recovered 70% from its March 2020 low, indicating a solid comeback in the Indian mutual industry. Nakum K. (2021) reported that mutual fund investments also experienced positive growth until the month of December.

2. Classification of Funds by Fund Structure

Open-end funds, unit investment trusts, and closed-end funds are the three basic types of mutual fund structures. Exchange-traded funds (ETFs) are open-end investment trusts or funds that trade on a marketplace similar to the New York Stock Exchange. Open-end funds that cannot be sold on an exchange may be returned to fund management at the end of each business day.

2.1 Open Funds

Open-end funds are the most common type of mutual funds. These funds are open to new investments and redemptions on a continuous basis. Investors can buy and sell units or shares in the fund at the net asset value (NAV), which is calculated at the end of each trading day. The fund's size can vary based on investor demand, as new investors can enter or existing investors can exit at any time. Open-end funds are typically used for long-term investment purposes.

In the United States, the vast majority of mutual funds, including those in 401(k) retirement plans, operate as open-end funds. Open-end mutual funds are required to offer to repurchase shares from investors at the net asset value (NAV) determined at the end of each business day, based on the securities' prices held by the fund. Additionally, these funds also make shares available for sale to the public each business day, which are also valued at NAV.

A qualified investment manager oversees the fund's portfolio and conducts buying and selling of assets as needed. As a result of share purchases, redemptions, and market valuation fluctuations, the total asset value of the fund will vary. There is no legal restriction on the number of shares that the fund can issue.

2.2 Closed Funds

Closed-end funds have a fixed number of shares or units issued during their initial public offering (IPO). After the IPO, these funds do not issue new shares or redeem existing ones. Instead, investors can buy or sell shares of the fund on a secondary market, such as a stock exchange. The market price of closed-end fund shares may differ from their net asset value (NAV). Shares may trade at a premium (above NAV) or a discount (below NAV) based on investor sentiment and

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market conditions. Closed-end funds may be actively or passively managed, and they can invest in various asset classes. Investors looking to invest in closed-end funds need to consider factors like market price, liquidity, and the premium or discount to NAV.

A closed-end fund normally only offers shares to the public once when it is first established through an IPO. The shares are then listed for trading on a stock exchange. A shareholder who decides to sell their holdings must do so to another shareholder in the market; they cannot sell their shares back to the fund, and the price they get may be significantly different than NAV. Either at a "discount" to NAV or at a "premium" to NAV (i.e., a price higher than NAV) is possible. (that is, less than NAV). A skilled investment manager oversees the portfolio and makes the appropriate asset purchases and sells.

2.3 Unit Investment Trusts

Only once, at the moment of creation, may a UIT be issued to the general public. Usually, the lifespan of UITs is predetermined at the time of construction. Investors can choose to redeem their shares directly from the fund at any time, similar to an open-end fund, or they can postpone redemption until the trust is dissolved. Although less commonly, they can also sell their shares on the open market. In unit investment trusts, the securities in the portfolio are decided upon at the time of the UIT's creation and do not change. These trusts do not have a professional investment manager.

UITs are commonly used for specific investment objectives, such as investing in municipal bonds, corporate bonds, or a particular sector of the market. They are also used for tax planning purposes, as the fixed nature of the portfolio can provide predictability in income and capital gains.

2.4 Exchange-Traded Funds

The open-end investment company structure, sometimes referred to as a UIT, is what exchange-traded funds (ETFs) use. ETFs contain the characteristics of both open-end and closed-end funds. ETFs are continually traded throughout the day on a stock market. An arbitrage approach is used to keep the trading price close to the ETF holdings' net asset value.

ETFs have become increasingly popular among investors due to their versatility and advantages. They provide a convenient way to invest in a diverse range of assets while enjoying the liquidity and flexibility of trading on stock exchanges. However, investors should conduct due diligence, understand the ETF's investment objective, and be aware of associated costs and potential risks before investing in any specific ETF.

3. Classification of Funds by Types of Underlying Investments

Mutual funds are classified based on their investment aim and direct investments. The four primary types of investment vehicles are money market funds, bond or fixed income funds, stock or equity funds, and hybrid funds. These funds can further be categorized based on their investment purpose, approach, or focus. According to the Securities and Exchange Commission (SEC), the names of mutual funds should correspond to their investments.

3.1. Money Market Funds

Money market funds invest in short-term, high-quality fixed-income securities with a short time to maturity. Investors often use money market funds as an alternative to bank savings accounts, but they are not government-insured. Retail money market funds maintain a constant net asset value (NAV) of $1.00 per share, providing interest payments to investors without capital gains or losses due to appreciation. If a fund's securities lose value and it cannot maintain the $1.00 per share NAV, it is considered to "break the buck." Instances of money market fund failures in the United States include the Reserve Primary Fund in 2008 and Community Banker's U.S. Government Money Market Fund in 1994.

3.2. Bond Funds

Bond funds are a type of mutual fund or exchange-traded fund (ETF) that primarily invests in a diversified portfolio of bonds or fixed-income securities. These funds provide investors with exposure to the fixed-income market, and they can be an attractive choice for those seeking income generation and relative stability in their investment portfolios.

Bond funds invest in debt and fixed-income securities. They can be further subdivided based on the specific type of bonds they hold, such as high-yield debt (junk bonds), investment-grade corporate bonds, government bonds, or municipal bonds. Additionally, bond funds may differ based on the maturity of the bonds they invest in, such as short-term, intermediate-term, or long-term bonds. The classification of bond funds also considers the type of bond issuers, including the nation, credit standing, or taxation of interest.

Investors should carefully consider their investment objectives, risk tolerance, and time horizon when choosing a bond fund, as different types of bond funds serve different purposes within a diversified portfolio. Additionally, it's essential to review a bond fund's prospectus and understand its investment strategy, expenses, and historical performance before investing.

3.3. Stock Funds

Stock or equity funds deal with buying and selling common stocks. These funds often focus on specific segments of the stock market, such as equities from a single nation or sector. Stock funds might also concentrate on particular types of

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companies, such as growth stocks, companies considered to be undervalued, or stocks with significant dividend income. Furthermore, some funds might target companies based on their market capitalization or total equity value, which indicates the size of the business.
It's important for investors to carefully review the prospectus and understand the specific investments and objectives of each mutual fund before making investment decisions. This knowledge will help investors choose funds that align with their financial goals and risk tolerance.

Market Capitalization Classification and Common Types of Mutual Funds
Market capitalization (market cap) of a company is calculated by multiplying the number of outstanding shares with the stock's market price. Companies are typically grouped based on their market cap as follows:
1. Mega Cap: Companies with a market cap of $200 billion or more.
2. Big/Large Cap: Companies with a market cap between $10 billion and $200 billion.
3. Mid-Cap: Companies with a market cap between $2 billion and $10 billion.
4. Small Cap: Companies with a market cap between $300 million and $2 billion.
5. Microcap: Companies with a market cap between $50 million and $300 million.
6. Nano Cap: Companies with a market cap less than $50 million.

3.4 Hybrid Funds or Balance Funds
Hybrid funds invest in a diversified range of securities, including bonds, stocks, and convertible instruments. These funds may include balanced funds, asset allocation funds, target date or target risk funds, and lifecycle or lifestyle funds. Some hybrid funds use a "funds of funds" structure, where they invest by purchasing shares of other mutual funds that make investments in securities. While some invest in unaffiliated funds managed by different fund sponsors, many hybrid funds invest in linked funds managed by the same fund sponsor.
Examples include balanced funds, target-date funds, and asset allocation funds.

4. Common Types of Mutual Funds
4.1 Money Market Funds
Money market funds invest in short-term, highly liquid, and low-risk instruments like Treasury bills, commercial paper, and certificates of deposit.
Money market funds invest in short-term fixed-income securities, such as bankers' acceptances, commercial paper, government bonds, treasury bills, certificates of deposit, and other short-term fixed-income assets. These funds typically offer lower potential returns compared to other mutual fund types but are considered safer investments. Canadian money market funds aim to maintain a $10 per security net asset value (NAV). They are designed to provide stability and liquidity to investors while aiming for a modest return.

4.2 Fixed Income Funds
Fixed-income funds invest in debt securities, such as bonds, Treasury bills, and corporate bonds. They are often categorized based on the duration of the bonds they hold (e.g., short-term, intermediate-term, long-term) or the credit quality of the issuers (e.g., government bonds, high-yield bonds).
Fixed income funds invest in fixed-return securities, including high-yield corporate bonds, investment-grade corporate bonds, and government bonds. The primary objective of these funds is to generate a consistent income, mainly through interest. Investment-grade and government bond funds generally entail lower risk compared to high-yield corporate bond funds.

4.3 Equity Funds
Equity funds involve buying and selling stocks. They typically carry a higher risk since their aim is to achieve higher growth compared to money market or fixed-income funds. Equity funds offer various categories to choose from, including growth funds (focused on companies that do not often pay dividends), income funds (comprising companies that pay substantial dividends), value stocks, large-cap, mid-cap, small-cap, or a combination of these strategies.
It is essential for investors to carefully consider their investment goals and risk tolerance while selecting mutual funds. Conducting thorough research and reviewing the fund prospectus can help make informed investment decisions.

4.4 Balanced Funds
Balanced funds are a type of mutual funds that combine investments in both equities and fixed-income securities. The main objective of these funds is to strike a compromise between the need for higher profits and the potential for financial loss. To achieve this balance, most balanced funds employ a formula to allocate funds among various investment types. Compared to fixed-income funds, balanced funds generally involve higher risk, but they carry lesser risk compared to pure equity funds. Within the category of balanced funds, there are conservative funds that hold a smaller proportion of equities and aggressive funds that own a higher proportion of stocks.

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4.5 Index Funds

Index funds aim to replicate the performance of a specific market index, such as the S&P 500 or the FTSE 100. They offer a passive investment approach and typically have lower expense ratios compared to actively managed funds

Index funds aim to mimic the performance of a specific market index, such as the S&P/TSX Composite Index. As the value of the index changes, the value of the mutual fund also changes accordingly. One of the advantages of index funds is that they often come with lower expenses than actively managed mutual funds since the portfolio manager's workload and investment decisions are reduced.

4.6 Specialty Funds

Specialty funds concentrate on specific investment mandates, such as investing in real estate, commodities, or socially conscious companies. For example, a socially conscious fund might focus on investing in businesses that support diversity, human rights, and environmental stewardship while avoiding companies involved in alcohol, cigarettes, gambling, weapons, and the military.

4.7 Fund-of-Funds

Fund-of-funds are mutual funds that invest in shares of other funds. Their primary goal is to simplify asset allocation and diversification for investors, similar to what balanced funds aim to achieve. However, compared to standalone mutual funds, fund-of-funds often have a higher expense ratio (MER).

5. Mutual Funds in India

The concept of mutual funds originated in Europe, and historical records suggest that the first mutual fund was established in 1774 by a trader from the Netherlands. In the United States, mutual funds were introduced in the 1890s and gained popularity in the 1920s. India's first mutual fund, known as the Unit Trust of India (UTI), was introduced by the Indian government in 1963. Until 1987, several government-controlled Indian financial institutions, including the State Bank of India, Canara Bank, and Punjab National Bank, launched their own mutual funds to compete with UTI. Subsequently, in 1993, the Indian government introduced significant constitutional modifications under the regime of "Liberalisation, Privatisation, and Globalization" (LPG), which opened up the mutual fund market to private companies. As a result, Kothari Pioneer, later merged with Franklin Templeton, became the first private sector fund to operate in India. In 1996, the Securities and Exchange Board of India (SEBI), India's mutual fund regulator, formulated the Mutual Funds Regulation Act.

5.1 Mutual Funds are an Under-Tapped Market in India

Despite the availability of deposits, less than 10% of Indian families have invested in mutual funds. A recent analysis of mutual fund investments in India by research and analytics firm Boston Analytics revealed that people are hesitant to invest in mutual funds due to the perception of high risk and a lack of understanding of how they operate. As of June 2013, there were 46 mutual funds in India. The size of the city appears to be a significant factor affecting investment decisions, with nearly 40% of respondents in metros and Tier I cities considering such investments to be very dangerous, while 33% of those in Tier II cities stated that they have limited knowledge about mutual funds.

5.2 Certainly, let's elaborate on the factors contributing to the under-tapped mutual fund market in India:

5.2.1 Low Penetration:

Mutual fund penetration in India, as a percentage of the population investing in them, is relatively low compared to more developed markets. This indicates that there is a large segment of the population that has not yet embraced mutual funds as an investment option.

5.2.2 Lack of Awareness:

Many potential investors, particularly in rural and semi-urban areas, lack awareness about mutual funds. They may not understand the benefits of diversification, professional management, and the various types of mutual funds available. This lack of knowledge can deter potential investors.

5.2.3 Cultural Factors:

India has a long history of investments in tangible assets like real estate and gold, which are often considered safer and more stable. Investors may have a cultural preference for physical assets they can see and touch, leading to a reluctance to invest in financial instruments like mutual funds.

5.2.4 Regulatory Changes:

Regulatory bodies like SEBI have introduced reforms to simplify the mutual fund industry and make it more investor friendly. However, the pace of change and awareness about these regulatory changes may not have reached all segments of the population.

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5.2.5 Distribution Challenges:
Access to mutual funds can be limited in remote or rural areas, where there may be a lack of financial institutions or advisors to provide guidance on mutual fund investments. Expanding distribution networks and leveraging technology for remote access can help address this challenge.

5.2.6 Risk Aversion:
Indian investors often exhibit a risk-averse behaviour and prefer low-risk investment options like fixed deposits and savings accounts. Convincing them to embrace the concept of risk diversification and potentially higher returns offered by mutual funds can be an ongoing effort.

5.2.7 Goal-Oriented Investing:
In India, investors often have specific financial goals, such as buying a house, funding education, or planning for retirement. Mutual funds can be better positioned as tools to help investors achieve these goals through systematic and disciplined investments.

5.2.8 Changing Demographics:
India's young and growing population has the potential to drive increased interest in long-term investment options like mutual funds. As young investors plan for their financial futures and life events, they may increasingly turn to mutual funds for wealth accumulation.

5.2.9 Competition from Other Investments:
India offers a wide range of investment options, including traditional savings instruments, real estate, and gold. Mutual funds face competition from these alternatives. Convincing investors to allocate a portion of their savings to mutual funds requires demonstrating the advantages of diversification and professional management.

6. Distribution of Funds

Mutual fund investments in India come from both organizations (businesses) and private citizens. Institutional investors have started investing directly with mutual funds since January 2013, as it reduces the expense ratio incurred. On the other hand, banks and investment advisors primarily serve individual investors. Since 2009, online mutual fund investing platforms have also emerged. The larger Indian mutual fund industry has benefited from outsourcing investor servicing to two of the country's top registrar and transfer agents, CAMS and Karvy. CAMS handles over 65% of the assets servicing, while Karvy handles the remaining portion. Franklin Templeton Mutual Fund provides services to investors through its own internal RTA setup. Both RTAs have a strong network of regional offices, facilitating local business for investors in mutual funds. These contact points (Customer Service Centers or CSCs) not only provide statements of accounts and other services but also handle financial transactions, non-financial changes, meet KYC requirements, register nominations, and facilitate the transmission of units. "Assets under management" (AUM) refers to the market worth of all the money that a financial institution, such as a mutual fund, hedge fund, private equity firm, venture capital firm, or brokerage house, manages on behalf of its clients, investors, partners, depositors, etc.

7. Factors that Lead to Investment in Mutual Funds

Several considerations need to be taken into account while investing in mutual funds. Each factor plays a crucial role in influencing an investor's decision in various ways when choosing the funds to invest in.

7.1 Your Risk Tolerance

The relationship between risk and return in investments is inverse. Risk refers to the likelihood of a negative outcome, while return is the reward for taking on that risk. For instance, a bond fund typically offers a lower rate of return due to its lower risk. To determine how much risk you can comfortably handle, you can take a risk profile test. Such a test helps in deciding whether it is suitable for you to invest in a more cautious fund or one that is more growth-oriented.

7.2 Fund Performance

Mutual funds need to evaluate their performance in comparison to a benchmark index. For example, a core stock fund might be compared against the S&P 500 index. While a fund's five-year average return of 12 percent might seem respectable, it may actually be underperforming if the S&P 500 has a five-year average return of 15%. Different benchmarks exist for various types of funds.

7.3 Fund Size

Although fund size often has little impact on returns, there are instances where a fund may become either too small or too large for its own benefit. For instance, the Magellan fund of Integrity surpassed $100 billion in assets in 1999. Due to its size, every time the fund bought or sold equities, it affected the prices of those stocks. On the other hand, if a smaller fund performs well in the short term, it may attract more investors, resulting in the management having more

money than they can effectively invest in high-quality securities. This can lead to lower fund returns, as more money remains uninvested.

7.4 Fees

Fees are how mutual funds generate revenue from investors. Certain funds charge a sales fee, known as a load fee, when you purchase or sell fund shares. These costs typically range from 3 to 6 percent, with an upper limit of 8.5 percent. Additionally, all funds charge an annual fee, known as an expense ratio, which includes management fees, administrative costs, marketing, and sales activity. The expense ratio typically ranges around 1.25 percent. However, some brokers like Vanguard charge as little as 0.19 percent.

7.5 Turnover Rate

The turnover rate indicates how frequently the fund management's portfolio of equities is transacted. Every time a mutual fund makes a transaction, it incurs fees that are ultimately passed on to the investors. Therefore, a higher turnover rate can result in higher costs and capital gains taxes for investors. Ideally, a fund's turnover rate should be as close to 0% as possible.

7.6 Fund Type

Choosing the right mutual fund depends on your time horizon and objectives. For example, a long-term investor may be interested in a growth fund with a high-risk, high-reward profile, as long-term gains can offset short-term losses. On the other hand, a risk-averse long-term investor might prefer a balanced fund with a well-balanced mix of high and low-risk securities. Additionally, a mutual fund that holds both government and corporate debt can provide a low-risk option for short-term income needs.

7.7 Timing

Timing mutual funds, which should not be confused with market timing, is generally discouraged. Mutual funds are often used as long-term investments, and the goal is not to make quick profits by buying low and selling high in the short term. Timing can lead to higher fees and detrimental effects on other fund investors. Many mutual funds impose a redemption fee to deter timing, which is charged on sales made before the required holding period has passed. A careful selection of mutual funds based on individual risk profile and objectives is crucial for enhancing chances of success, in addition to evaluating fund performance and fees.

8. Benefits of Investing in a Mutual Fund

As an investor, maximizing profits on your assets might be challenging if you lack the time and expertise to closely monitor the stock market. Making informed decisions on what to buy and when to sell requires considerable time and information, and relying on predictions can be risky. In such situations, mutual funds can be beneficial. Here are some advantages of investing in mutual funds:

8.1 Professional Management

Mutual funds are managed by experienced and skilled portfolio managers who make investment decisions on behalf of investors. These managers analyze the market, select securities, and adjust the fund's portfolio to achieve its stated objectives.

It means your investments are managed by qualified experts, backed by a research team that continually evaluates the performance and future prospects of businesses. They select suitable assets to meet the scheme's objectives, and this ongoing process increases the potential return on your investment. Fund managers possess the expertise to manage your investments effectively and enhance returns.

8.2 Diversification

The principle of wise investing suggests that "Don't put all your eggs in one basket," which makes diversification crucial. By spreading your funds across various sectors and geographical areas, diversification reduces the risk of loss. It is rare for all stocks to decline simultaneously and to the same extent. Sector funds, which focus on a single industry, offer less diversification, making them less stable and generally more volatile.

8.3 More Choice

Mutual funds offer a range of plans that can meet your financial needs throughout your life. Adjusting your portfolio to match your changing life stages is as simple as sitting down with your financial advisor. Mutual funds come in various types, including equity funds, bond funds, money market funds, index funds, and more. This allows investors to choose funds that align with their investment objectives and strategies.

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8.4 Affordability

As a small investor, purchasing shares of larger companies might be challenging. However, mutual funds buy and sell securities in bulk, allowing investors to benefit from lower trading expenses. Even the smallest investor can start investing in mutual funds due to low investment thresholds. You can regularly invest in a Systematic Investment Plan with a minimum investment of Rs. 500.

8.5 Tax Benefits

Investments held for a year or more qualify as long-term holdings, which trigger capital gains taxation. Some mutual funds are structured to be tax-efficient, potentially reducing the tax burden on investors. For example, certain funds may minimize capital gains distributions.

8.6 Liquidity

Open-end funds offer liquidity, allowing you to sell all or a portion of your investment at any time and receive the current share price. Mutual funds are generally more liquid compared to most investments in shares and bonds. The standardized procedure ensures swift and efficient transactions, allowing you to access your money quickly.

8.9 Rupee-Cost Averaging

Rupee-cost averaging enables you to make regular investments of a fixed rupee amount, regardless of the investment's unit price. This approach allows you to purchase more units when prices are low and fewer units when prices are high, potentially resulting in a lower average cost per unit. It promotes discipline through regular investments rather than occasional ones.

8.10 Transparency

Mutual funds' performance is easily comparable as a variety of periodicals and rating bodies evaluate them. As a unit holder, you receive regular updates, including daily NAVs, information on the fund's holdings, and the fund manager's strategy.

8.11 Regulations

All mutual funds must be registered with SEBI (Securities Exchange Board of India) and adhere to strict rules designed to protect investors. SEBI conducts frequent checks on all fund operations.

9. Advantages and Disadvantages to Investors

When compared to buying individual assets directly, investing in mutual funds offers the following advantages and disadvantages:

9.1 Advantages of Investing in Mutual Funds

- ❖ Professional investment management by portfolio managers overseeing the fund's investments.
- ❖ Convenience and services, including check writing, offered by many funds.
- ❖ Greater diversification, which lowers risk, as funds typically hold a variety of securities.
- ❖ Access to investments that might be challenging for individual investors, such as international markets.
- ❖ Easy comparison between funds due to simultaneous reporting of information to investors.
- ❖ Regulation and oversight by a governmental organization, SEBI, ensuring investor protection.
- ❖ Daily liquidity for open-end funds, allowing investors to sell their holdings at the day's net asset value.

9.2 Disadvantages of Investing in Mutual Funds

- ❖ Subject to fees and expenses associated with mutual funds.
- ❖ Limited control over when gains are recognized due to fund management decisions.
- ❖ Uncertain income as fund returns are not guaranteed.
- ❖ Limited customization options as investors cannot tailor the fund's holdings to their specific preferences.

10. Conclusions

The primary objective of this study was to understand investors' perceptions of mutual funds. The factors influencing investment behavior include high returns, security, tax exemption, flexibility, liquidity, risk diversification, market trends, plan selection, dependability, and affordability. Mutual funds pool funds from different participants and invest in various financial instruments, such as stocks, bonds, and shares. Qualified fund managers handle these funds and use dividends to manage them. Some plans offer rewards based on market fluctuations, while others provide fixed returns with minimal risk. Mutual fund transactions are conducted in units based on the Net Asset Value, which accounts for exit and entrance load factors. The impact of COVID-19 on mutual funds has been minor but remains significant for perspectives in countries like India.

11. Recommendations and Suggestions

1. Laypersons often lack the expertise to invest in mutual funds, so they heavily rely on fund managers. It is crucial to ensure that fund managers are trustworthy individuals with extensive financial knowledge. They should possess a clear understanding of when to invest and which stocks to choose, effectively mobilizing investors' savings.
2. To increase investors' confidence and morale, appropriate actions should be taken. This can be achieved by providing investor education on mutual fund investing and using effective communication channels.
3. Timely and accurate information must be delivered to investors through various communication channels to keep them informed about the latest industry trends. This will empower them to make informed investment decisions.

In conclusion, by addressing these recommendations and suggestions, investors can make better-informed decisions and have a positive experience with mutual funds. Additionally, continued research and analysis of market trends can help further understand and optimize the benefits of mutual fund investments.

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