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A Study on Growth of Mutual Fund Industry in India

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Abstract:

The papers aims to study the recent trends in mutual fund industry in India. It is observed that mutual funds have become an important part of investment matrix. Investment industry in India has gone through huge pace of reinventions, given changes in monetary and political policies of government. A mutual fund brings together a large group of people and invests their aggregated money in stocks, bonds, and other securities. The advantages of mutual funds are professional management, diversification, economies of scale, and wide range of offerings. In the same line the study attempts to identify the major changes which can be marked for mutual funds as an investment options.

Keywords: Mutual Funds, trends, asset allocation.

Introduction

A mutual fund is a professionally-managed investment scheme, usually run by an asset management company that brings together a group of people and invests their money in stocks, bonds and other securities.

As an investor, you can buy mutual fund 'units', which basically represent your share of holdings in a particular scheme. These units can be purchased or redeemed as needed at the fund's current net asset value (NAV). These NAVs keep fluctuating, according to the fund's holdings. So, each investor participates proportionally in the gain or loss of the fund.

All the mutual funds are registered with SEBI. They function within the provisions of strict regulation created to protect the interests of the investor.

The biggest advantage of investing through a mutual fund is that it gives small investors access to professionally-managed, diversified portfolios of equities, bonds and other securities, which would be quite difficult to create with a small amount of capital.

Types of Mutual Funds

1. Money market funds

These funds invest in short-term fixed income securities such as government bonds, treasury bills, bankers' acceptances, commercial paper and certificates of deposit. They are generally a safer investment, but with a lower potential return then other types of mutual funds. Canadian money market funds try to keep their net asset value (NAV) stable at $10 per security.

2. Fixed income funds

These funds buy investments that pay a fixed rate of return like government bonds, investment-grade

corporate bonds and high-yield corporate bonds. They aim to have money coming into the fund on a regular basis, mostly through interest that the fund earns. High-yield corporate bond funds are generally riskier than funds that hold government and investment-grade bonds.

3. Equity funds

These funds invest in stocks. These funds aim to grow faster than money market or fixed income funds, so there is usually a higher risk that you could lose money. You can choose from different types of equity funds including those that specialize in growth stocks (which don't usually pay dividends), income funds (which hold stocks that pay large dividends), value stocks, large-cap stocks, mid-cap stocks, small-cap stocks, or combinations of these.

4. Balanced funds

These funds invest in a mix of equities and fixed income securities. They try to balance the aim of achieving higher returns against the risk of losing money. Most of these funds follow a formula to split money among the different types of investments. They tend to have more risk than fixed income funds, but less risk than pure equity funds. Aggressive funds hold more equities and fewer bonds, while conservative funds hold fewer equities relative to bonds.

5. Index funds

These funds aim to track the performance of a specific index such as the S&P/TSX Composite Index. The value of the mutual fund will go up or down as the index goes up or down. Index funds typically have lower costs than actively managed mutual funds because the portfolio manager doesn't have to do as much research or make as many investment decisions.

6. Specialty funds

These funds focus on specialized mandates such as real estate, commodities or socially responsible investing. For example, a socially responsible fund may invest in companies that support environmental stewardship, human rights and diversity, and may avoid companies involved in alcohol, tobacco, gambling, weapons and the military.

7. Fund-of-funds

These funds invest in other funds. Similar to balanced funds, they try to make asset allocation and diversification easier for the investor. The MER for fund-of-funds tend to be higher than stand-alone mutual funds.

4 common approaches to investing

1. **Top-down approach** – looks at the big economic picture, and then finds industries or countries that look like they are going to do well. Then invest in specific companies within the chosen industry or country.
2. **Bottom-up approach** – focuses on selecting specific companies that are doing well, no matter what the prospects are for their industry or the economy.
3. **A combination of top-down and bottom-up approaches** – A portfolio manager managing a global portfolio can decide which countries to favour based on a top-down analysis but build the portfolio of stocks within each country based on a bottom-up analysis.

4. **Technical analysis** – attempts to forecast the direction of investment prices by studying past market data.

Mutual funds record highest growth in 7 years, Rs3.71 trillion added to their kitty

Mutual fund assets have reached a total corpus of around Rs17 trillion, despite lacklustre equity markets, demonetisation woes and a surge in global oil prices
The country's mutual fund (MF) assets logged the highest growth in seven years to reach a total corpus of around Rs17 trillion, despite lacklustre equity markets and challenging economic conditions due to demonetisation and a surge in global oil prices.

During the year ended December 2016, asset management companies, or AMCs, grew their average assets by around 30% by adding investments worth at least Rs3.71 trillion to their MF portfolios—the highest ever in absolute terms and the highest since December 2009 in percentage terms.

According to AMC officials, increasing number of investor accounts, steadily growing monthly investments into equity MF schemes from retail customers and a surge in inflows to exchange traded funds (ETFs) contributed the most to the asset growth of the country's 42 AMCs.

AMC ASSETS GROW RS3.71 TN IN 2016

	AUM* (in Rs Cr)	Change (in Rs. Crore)
2008	4,21,149	1,29,010
2009	7,94,522	3,73,373
2010	6,75,683	1,18,839
2011	6,81,713	6,030
2012	7,55,683	73,971
2013	8,55,284	99,600
2014	10,80,835	2,25,551
2015	13,22,767	2,41,932
2016	16,93,875	3,71,108

*Assets under management

Source: Value Research

Fund houses said while the folio count was going up during the year, the average monthly retail investments, which typically come through systematic investment plans (SIPs), shot up to Rs4,000 crore a month this year as compared to around Rs1800- 2000 crore during the calendar year 2015.

"The sharp jump in SIPs came as a surprise during the year which definitely contributed to the AUM growth," said Vikaas Sachdeva, chief executive officer, Edelweiss Asset Management Ltd.

"But the flip side is that if the numbers are broken down, it shows that a lot of money has also come through ETFs and arbitrage funds.

During the year, around Rs40,000-45,000 crore would have come from these two types of funds, which means around 10% the money may have come from these two categories alone and we feel ETFs are likely to grow much faster in the coming days and beat equity schemes as more and more investors learn the benefits of ETF investments.

"However, the most heartening part is that SIPs are growing steadily and during the past year, often they made up for the outflows or lower investments made through lumpsum payments in equity schemes. People have started moving from the concept of lumpsum investments to SIPs, which means this growth is sustainable. In fact, it will not be surprising if the average SIP flows grow to Rs10,000 crore a month in the next two years," said Sachdeva.

A data by industry body Association of Mutual Funds in India, or Amfi, showed that between December of 2015 and September end of 2016 alone (the latest quarterly data available), at least 4.7 million investors opened MF accounts.

According to a data by New Delhi-based MF analytics firm Value Research, during the past year mutual fund assets witnessed the largest growth after the calendar year 2009—the year when the market regulator scrapped entry load in mutual funds.

According to R. S. Srinivas Jain, chief marketing officer at SBI Funds Management Pvt. Ltd which managed assets worth around Rs1.4 trillion during the December quarter, the equity market's performance in the short term is secondary for investors.

"What is more important for the investor is the opportunity he has to make money from the available channels. Now, the interest rates are coming down which means fixed income is no longer so attractive. Real estate and gold are no longer fetching returns like earlier. So from relative point of view mutual funds look more attractive as an investment opportunity at present. Secondly, we clearly saw a shift in investor perception during the year. The culture of equity as an investment class is clearly growing among investors. They have learnt to overlook the market's short term movement, which means people are bullish about the economic prospects in the long term. Investors have started looking at MFs as a serious long term investment rather than a quick money making route," Jain added.

According to an Amfi presentation, the value of assets held by individual investors in mutual funds increased from Rs6.14 trillion in November 2015 to Rs7.56 trillion in November 2016, an absolute increase of 23%.

On the other hand, the assets held by institutional investors grew 29% from Rs7.28 trillion to Rs9.39 trillion during the same period.

Sachdeva felt that going forward, if the market remains reasonable, in order to sustain the growth, AMCs should spend more on investor education, promoting digitization of MF transactions and work on strengthening the distribution ecosystem.

"AMCs will need to ascertain the most efficient mode of distribution among the choices such as direct plans, RIAs and so on. Also, it will be extremely crucial for AMCs to figure out ways to protect their profit margins while growing their

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assets and customer base in the coming days," he added.

Conclusion:

This paper documents the tendency of mutual fund managers to follow analyst recommendation revisions when they trade stocks, and the impact of these analyst revision-motivated mutual fund ³herds´ on stock prices. We find evidence that mutual fund herding impacts stock prices to a much greater degree during our sample period (1995 to 2006) than during prior-studied periods. Most importantly, we find that mutual fund herds form most prominently following a consensus revision in analyst recommendations. 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. This relation remains robust after we control for stock characteristics and investment signals that influence both fund trading and analyst revisions and after using alternative measures of analyst revisions. In addition, mutual funds react more strongly to analyst information when it appears to be more credible. Perhaps our most interesting result is that mutual funds appear to overreact when they follow analyst revisions² upgraded stocks heavily bought by herds tend to underperform their size, book-to-market, and momentum cohorts during the following year, while downgraded stocks heavily sold outperform their cohorts. These findings suggest that funds initially overreact to analyst revisions. Further evidence indicates that once we account for herding in response to analyst recommendation revisions, herding, in general, does not cause subsequent return reversals, nor does analyst revisions by themselves. Finally, we find that the selling of funds with greater career concerns (i.e., funds with poor past performance) plays a greater role in destabilizing stock prices, supporting the conjecture that analyst revision-induced herding is driven partly by non-information related incentives. Further investigation into other incentives that drive herding on analyst revisions is left to future research

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