STUDY ON PERFORMANCE EVALUATION OF MUTUAL FUND SCHEMES IN INDIA

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ABSTRACT

Mutual fund industry is considered as one of the most dominant players in the world economy and is an important constituent of the financial sector and India is no exception. The industry has witnessed startling growth in terms of the products and services offered, returns churned, volumes generated and the international players who have contributed to this growth. Today the industry offers different schemes ranging from equity and debt to fixed income and money market. In the pre-recession period, this industry experienced significant growth thanks to the overall growth in GDP, Positive Business Climate and Optimistic Investor sentiment. But in the recession period, the industry witnessed the radical decline in the growth due to reversal of the above said factors. In the post recession period, the industry has been struggling to capture the missed place in the market and in the verge of introducing innovative strategies to overcome the issues being faced.

This article deals with the changes occurred in the industry its impact in the Indian Financial Market.

Keywords: Mutual Fund Industry, India, Money Market, Equity Fund.

1. INTRODUCTION

Due credit for this evolution can be given to the regulators for building an appropriate framework and to the fund houses for launching such different products. All these reasons have encouraged the traditional conservative investor, from parking fund in fixed deposits and government schemes to investing in other products giving higher returns. It is interesting to note that the major benefits of investing in a mutual funds is to capitalize on the opportunity of a professionally managed fund by a set of fund managers who apply their expertise in investment. This is beneficial to the investors who may not have the relevant knowledge and skill in investing. Besides investors have an opportunity to invest in a diversified basket of stocks at a relatively
low price. Each investor owns a portion of the fund and hence shares the rise and fall in the value of the fund. A mutual fund may invest in stocks, cash, bonds or a combination of these. Mutual funds are considered as one of the best available investment options as compared to others alternatives. They are very cost efficient and also easy to invest in. The biggest advantage of mutual funds is they provide diversification, by reducing risk & maximizing returns Consumer behavior from the marketing world and financial economics has brought together to the surface as an exciting area for study and research: behavioral finance. The realization that this is a serious subject is, however, barely dawning. Analysts seem to treat financial markets as an aggregate of statistical observations, technical and fundamental analysis. A rich view of research waits this sophisticated understanding of how financial markets are also affected by the 'financial behavior' of investors. With the reforms of industrial policy, public sector, financial sector and the many developments in the Indian money market and capital market, Mutual Funds which has become an important portal for the small investors, is also influenced by their financial behavior. From the researchers and academicians point of view, such a study will help in developing and expanding knowledge in this field.

The empirical results reported here reveal the fact that the mutual funds were not able to compensate the investors for the additional risk that they have taken by investing in the mutual funds. The study concludes that the influence of market factor was more severe during negative performance of the funds while the impact selectivity skills of fund managers was more than the other factors on the fund performance in times of generating positive return by the funds. It can also be observed from the study that selectivity, expected market risk and market return factors have shown closer correlation with the fund return.

2. OBJECTIVES

- To study the impact of various demographic factors on investors’ attitude towards mutual fund.
- To find preference of investors about different investment avenue.
- To analyze the investors awareness and perception regarding Mutual fund investment.

3. RANKING AND PROFESSIONAL MANAGEMENT OF MUTUAL FUNDS

Ranking

Funds are ranked based upon their performance as a whole and performance against their peers by such companies as Morningstar which has an industry recognized rating system for mutual funds. They have a one-to-five star system in which five stars is the best. Usually the higher the rank, the higher the quality of the fund. For example Morningstar rates mutual funds from 1 to 5 stars based on how well they've performed (after adjusting for risk and accounting for sales charges) in comparison to similar funds. Within each Morningstar Category, the top 10% of funds receive 5 stars and the bottoms 10% receive 1 star. Funds are rated for up to three time periods: three-, five- and 10- years and these ratings are combined to produce an overall rating. Funds with less than three years of history are not rated. Ratings are objective, based entirely on a mathematical evaluation of past performance. The
ratings are a useful tool for identifying funds worthy of further research, but should not be considered signals to buy or sell.

**Professional management**

Mutual funds use professional managers to make the decisions regarding which companies' securities should be bought and sold. The managers of the mutual fund decide how the pooled funds will be invested. Investment opportunities are abundant and complex. Fund managers are expected to know what is available, the risks and gains possible, the cost of acquiring and selling the investments, and the laws and regulations in the industry.

### 4. RECESSION IN USA AND IN INDIA

The US officially entered recession in 2007, but by all accounts India got to feel its effects much later, mostly courtesy its lesser dependence on exports as well as its highly regulated and conservative banking and financial system not having exposed itself to the kind of high-risk instruments dreamed up by the US investment banks. In India, the global financial crisis was striking the stock markets down from their all-time highs from early 2008. By mid-September, Sensex had fallen back to their November 2005 levels of just above 8,000 points. Recession is substantial decline in activity across the economy, lasting a longer period which is usually more than a few months.

The mutual fund industry in India suffered a debilitating blow as a result of the global financial collapse too, with returns plummeting across the board. As Indian markets buckled in synch with the US markets, investors in mutual funds panicked and redemptions hit the roof -- debt funds, especially short-term funds, were the ones to suffer the worst on account of heavy redemptions (debt funds invest in fixed-income securities like corporate bonds, government bonds, debentures, commercial paper and certificates of deposits).

### 5. OBTAINING RELEVANT VARIABLES USING PCA

The collinearity statistics of the inputs clearly shows that the Variance Inflation Factor (VIF) for most of the inputs is greater than 5, indicating potential multi-collinearity problem. In order to identify relevant variables and redundant or irrelevant variables, PCA (Principal Component Analysis) technique is used. High value of KMO (0.804>.05) indicates that a factor analysis is useful for the present data. The next step in the process is to decide about the number of factors to be derived. The rule of thumb is applied to choose the number of factors for which ‘Eigen values’ are greater than unity. The Component matrix so formed is further rotated orthogonally using Varimax algorithm which is the standard rotation method. Among the two factors identified, about 80% of the total variance was explained. The Scree plot obtained for the components best explains the prominence of the two factors. Using these two factors identified by PCA, the mutual funds are modeled using Artificial Neural Network.
6. RECESSION PERIODS

Hereon, researcher would cover our study in three phases.

- Pre-recession (2006-2007)
- Recession (2008-mid 2009)
- Post-recession (2009-2011)

Pre-recession period (2006-2007)

The growth period for mutual fund industry first started during early 2005 with markets appreciating significantly. With 2006 approaching more towards 2007, markets rallied like never before. The financial year 2007-08 was a year of reckoning for the mutual fund industry in many ways. Most stocks were trading in green and all fund houses boasted of giving phenomenal returns with many funds outperforming markets. Equity markets were in the limelight. Investors who were not exposed to equity stocks suddenly infused funds. AUM grew considerably and fund houses were on a spree of launching new schemes.

Below Figure shows all AUM’s have grown over the period of 2006-2008 growing ~2.5 times of INR 1956 bn in 2006 to ~INR 5000 bn in 2007 end.

![Figure 1: Period 2006-2008](image-url)
TABLE 1: Below table shows returns of large cap equity based schemes of our coverage of 10 fund houses

<table>
<thead>
<tr>
<th>Fund</th>
<th>Returns(%)</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
</tr>
<tr>
<td>HDFC Top 200</td>
<td>20.5</td>
<td>-12.8</td>
<td>16.9</td>
</tr>
<tr>
<td>SBI Magnum Contra</td>
<td>28.9</td>
<td>-11.7</td>
<td>15.3</td>
</tr>
<tr>
<td>Reliance Growth Fund</td>
<td>20.4</td>
<td>-14.9</td>
<td>17.4</td>
</tr>
<tr>
<td>DSP BlackRock Top 100 Equity Fund</td>
<td>23.3</td>
<td>-11.6</td>
<td>15.5</td>
</tr>
<tr>
<td>Kotak Opportunities Fund</td>
<td>25.8</td>
<td>-14.7</td>
<td>12.0</td>
</tr>
<tr>
<td>Principal Large Cap Fund</td>
<td>26.4</td>
<td>-10.9</td>
<td>15.1</td>
</tr>
<tr>
<td>Sundaram Select Focus</td>
<td>27.2</td>
<td>-11.6</td>
<td>12.9</td>
</tr>
<tr>
<td>Franklin India Bluechip Fund</td>
<td>23.4</td>
<td>-12.6</td>
<td>16.4</td>
</tr>
<tr>
<td>Birla Sun Life Frontline Equity Fund</td>
<td>19.3</td>
<td>-9.0</td>
<td>18.8</td>
</tr>
<tr>
<td>Tata Equity P/E Fund</td>
<td>16.0</td>
<td>-15.6</td>
<td>15.3</td>
</tr>
<tr>
<td>Nifty</td>
<td>200</td>
<td>-8.1</td>
<td>14.7</td>
</tr>
</tbody>
</table>

Study of above table suggests that returns from different schemes were in synchronization with the markets. When there was boom in the stock market the funds gave positive returns a little more than what the market had given. It can be easily concluded that most of the fund returns can be attributed to the market that is they were in direct correlation with the market. One should note that when markets were not in good shape & the going was not good, these schemes have underperformed the market. This shows the supremacy of beta effect on these schemes i.e. outperforming when in bull phase and underperforming when in bear phase.

Recession period (2008-mid 2009)

The mutual fund industry in India suffered a debilitating blow as a result of the global financial collapse, with returns plummeting across the board. As Indian markets buckled in sync with the US markets, investors in mutual funds panicked and redemptions hit the roof - debt funds, especially short-term funds, were the ones to suffer the worst on account of heavy redemptions (debt funds invest in fixed-income securities like corporate bonds, government bonds, debentures, commercial paper and certificates of deposits).

Figure 2- Recession Period 2008
Below graph shows how the AUMs having not grown at all with INR 5473 bn in Jan-08 and ending in Jun-09 at INR 5826 bn. Startling thing to see is that almost in 9 months out of 18 months period, negative growth has been witnessed.
All 10 fund schemes have given negative returns in CY2008 and have performed outstandingly in 2009. Below is the table displaying equity curve for all the 10 schemes.
CONCLUSIONS

A Mutual fund is the dynamic investment vehicle for today’s complex and modern financial scenario. We have seen the growing importance of mutual fund investment in India, when compared with other financial instruments. Investments in mutual funds are safer and also yields more returns due to proper portfolio management by the fund manager. Mutual fund are said to be the best channels for mobilizing the funds of the small investors and contribute significantly to the capital markets. The present study explains briefly about the mutual fund industry. The study also helps to understand the role of investment pattern and preferences of investors behind investing in mutual fund.

REFERENCES

3. Citing Website, Association of Mutual Funds in India.