An Empirical Study on Performance of Mutual Fund in India

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ABSTRACT

Stock market plays a very vital role in developing economy like India. It is becoming a darling of many small investors and also attracting the rural people in recent years. Investors usually perceive that all capital market investment avenues are risky. Based on objectives and risk bearing capacities, investors go for different investment alternatives. Among the various investment possibilities, mutual fund seems to be viable for all kind of investors as it is considered to be a safer mode of investment. This study is an attempt to understand the performance of share market and to analyze the correlation of performance of mutual funds with market indices like Sensex and Nifty. As a part of this study, data is collected regarding performance of mutual funds and stock market for the last year 2007 - 08, 2008 - 09 and 2009 - 10. Top five mutual fund (growth) and ten index funds are taken as sampling. Thus it is analyzed by using statistical tools such as Arithmetic Mean, Standard Deviation, Correlation and Testing Hypotheses. The study shows that, investors have made quite good returns in mutual funds like Reliance Vision Fund, HDFC Top-200 Fund etc.

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Introduction

We have seen many of the investors across the world becoming billionaire within a short span of time by investing in share market, at the same time some investors lost amount in the same market also. In the year 1992, 2001 and 2008 reports reveals, few investors lost their wealth and some of them committed suicide because of share market scandals. The famous investor Mr. Warren Buffet became the richest person because of his wise investment strategies, however it is not an alternative way to make money as it has huge amount of risk. An Investor has various investment options like debentures, shares, bank deposits, real estate etc. but choice of option is very essential. Mutual funds give higher returns because of professional management of fund. When we look at the risk and return pattern of investment, mutual funds have yielded good return over the past years compared to direct capital market.

The investment in stock market is increasing at a faster rate in the recent years because of FIIs, FDIs, Stock market awareness etc. Investment in Debentures, Bank Deposits are not so attractive because of less amount of interest, as in real terms the value of money decreases over a period of time. The other option is to invest money in stock market, but a common man is not much aware of market and he is not much competent enough to understand the functions of stock market and also it is an expansive proposal. The question to be answered is: what investment alternative should a small investor adopt? So obviously, mutual funds come to the rescue.

A mutual fund is a very simple concept which is combination of savings of investors. Mutual Funds are highly cost efficient and very easy to invest in. Considering the state of mind of the general investor, the research figures out to know how mutual fund is better than stock market, identify the most popular MF among individual investors and analyze how far the mutual fund schemes are able to win the confidence of the investors.

Hypothesis

a. Investment in mutual fund yields higher return than direct capital market.

b. There is direct correlation between NAV of mutual fund and market indices Sensex and Nifty

Objectives of study

Following are the objectives for the study.

a. To understand the correlation between the performance of mutual fund and share market

b. To study the return on investment in share market.

c. To understand the fund sponsor qualities influencing the selection of MFs/Schemes

d. To know how far the mutual fund schemes are able to win the confidence of the investors

Research Methodology

For the study purpose the data is collected through index funds, growth funds and Market Indices (Sensex & Nifty). Among the growth funds top performing five funds and from Index funds 10 are selected for the year 2007-08, 2008-09 and 2009-10 (financial year).

The period stated above is particularly significant because of the economic cycles like boom, recession and recovery in respective years. The various tools, like arithmetic mean, correlation, standard deviation, are used to analyze the data.

Following are the mutual fund schemes used for analysis in the study

1. HDFC Top 200 Fund - Growth Option
2. Reliance Vision Fund-GROWTH PLAN-Growth Option
3. Franklin India Prima Fund-Growth
4. Birla Sun Life Tax Plan Growth Option
5. UTI - G-Sec Fund-STP Growth

Review of Literature

It is bound to adapt the rich books, journals, periodicals, reports, etc. to measure with quantity of collections. Literature must be rich to impress the readers and references, so lots of books, national and international level magazines, websites are referred for the study. The previous research studies are also be used as a guideline in preparing and designing the research work.

Leelamma M. in her Ph. D these titled 'Performance appraisal of SBI mutual funds with special reference to Kerala state' analyzed with the objectives like the performance of SBI mutual fund and to know what extent mutual fund is effective. She has taken the performance of SBI mutual fund for 5 years and analyzed the performance and compared with other mutual, the project also includes the various schemes and history of mutual fund in India and world. Finally the project concluded with SBI is the best mutual fund and suggested some points to improve the quality of executives working for SBI mutual fund and accelerate the grievance handling aspects.

Dr. S G Gurusamy in Financial Services and System (2004) in Chapter 22 of Thomson Publication; The Money Market Mutual Fund scheme was introduced by RBI, in April 1972, for providing additional short-term avenues to individual investors with a view to bringing money market instruments within there reach. MMMF can be set up by scheduled commercial banks and public financial institutions, as defined under section 4A of the companies Act, 1956. In addition, private sector Mutual Funds may also set up MMMFs with the prior approval of RBI.

MMMFs can be set up either as Money Market Deposit Account or as Money market Mutual Funds. There is o ceiling prescribed for the MMMFs in raising resource. The MMMFs are primarily intended to serve as a vehicle for individual investors to participate in the money markets. The resources so mobilized should be invested exclusively in various money market instruments. RBI is th authority that gives approval for setting up MMMFs.

Dr. K Ravichandran in his Research Article titled "A study on Investors preference towards various Derivatives market, published in the Journal of Contemporary Research in Management a Quarterly journal, Vol3, Sept.-2008. The objective of the study was to know the various investment avenues and the investors risk preference towards it and to find out the preference level of investors on various capital market instruments. The research article found few things like; 44% of investors are between age group of 31 – 40, and they are influenced by their friend and relatives. It is concluded with the point that, though the stock market is subjected to high risk, by using derivatives the loss can be minimized to an extent.

Mr. Sandeep Srivastav of Ernst and Young, Dubai - 'Derivative Trading in Indian Stock Market; Brokers' perception published in IIMB Management Review Journal for September, 2008 – has made survey on brokers perception in the derivatives markets in India. The objective of the survey was to understand the derivative market form the perspective of market participants. The study covered the strengths, weaknesses, present status and future direction. Finally he has concluded with findings and some opinion that, derivative securities have definitely penetrated into the Indian stock market and investors are using these securities for different purposes namely risk management.

Rajeswari Krishnan – Professor SNS Business Scholl of Coimbatore in her article titled 'Stock Market Investments in 2009 – Can the Threats be Transformed into Opportunities?' published in ICFAI Publication's PORTFOLIO ORGANIZER of February, 2009 magazines opined as follows;

The year 2008 was painful to the investors as stock markets collapsed across the globe. The Indian stock markets fallen a victim to the financial global turmoil. The author forecasts what could be the performance of the markets in 2009. She concluded with, a stock market crash world-wide is considered to be an after-effect of the global financial crises and 2008 has been a disappointing year for many of stock market investors. The investor should reframe his strategies keeping in mind his long-term goals rather than short-term benefits and attach more importance to fundamentals to make his investment decisions. For a rational investor who would be ready to exploit the current situation to his benefit, 2009 is the best time to invest in the stock market. So the author tried to focus on forecasting what could be the performance of the markets in 2009.

Why should one choose to invest in a mutual fund?

Mutual Funds are considered to be safer mode of investment; these are investment companies that pool money from investors at large and offer to sell and buy back its shares / units on a continuous basis and thus rose to invest in various securities in different companies. If you are considering investment in stock market and are scared of unpredictable market volatility, you can definitely consider investing in mutual funds because of professional management. Some of the reasons that go strongly in favor of mutual funds are like it lowers risk factors.

For the retail investor who does not have the time and experience to analyze and invest in stocks and bonds, mutual funds offer a feasible investment alternative. This is because:

1. Normally investment in mutual fund is financially viable for all the investors, as it provides the benefit of economical access to expensive stocks
2. Mutual funds diversify the risk by investing in a basket of assets
3. An expert team of specialized fund managers managing the fund, each scheme has a separate professional fund manager.
4. As mutual fund is an institutional investor, which may have enough bargaining power in markets, and has access to decisive corporate information which individual investors don't access.

Is investment in Mutual Fund Risk – Free?

Usually the risk depends on Fund Manager and Asset Allocation. Mutual fund investments are not totally risk free. In fact, investing in mutual funds contains the same risk as investing in the markets, the only difference being that is due to professional management of funds the controllable risks are substantially reduced.

Mutual funds vs. other investments

Investment in mutual fund is always safe because of its unique advantages with it. When an investor invests in bank deposits, debt market, usually risk will be very less but return is around 10%, whereas investment in share market, forex market carries higher amount of risk having higher return. But mutual fund will give usually moderate return with moderate risk. Probability of loosing amount in mutual fund will be less as the risk is diversified with investment in different securities and fund is managed by professional experts. Exhibit-1 shows the comparative returns of mutual fund with other investment alternatives.

Exhibit 1 **– Comparative Returns**

Bank Deposits	**Debt Markets**	**Share Market**	**Mutual Fund**
8%– 10% Rate varies as per the term	8% - 12% Depending on securities	0% - >100%* Depends on Market	10% - 50% * Subject to market risk

Source: Calculated values compiled from the market observation

* Return on investment in share market and mutual fund varies beyond the % mentioned and subject to market risk,

Mutual Fund Investments and the Sensex

There are plenty of schemes available in the market like equity fund, income fund and liquid fund. In each of these categories we have infrastructure fund, tax savings fund, bond fund, fixed term plan and many more. One of the important funds is Growth fund where the asset allocation of this fund is made in equity shares listed in stock market and Index fund will be invested in share of Indices. The correlation of these two funds should be obviously positive as direction moves towards the same way. Exhibit-2 and Exhibit-3 explain the return given by mutual fund companies and the percentage change in the same period of the indices.

Exhibit-2 - **Correlation with Nifty**

Year	HDFC	Franklin	UTI	Birla	Reliance
2007-08	0.12	0.97	0.81	0.98	0.99
2008-09	0.99	0.99	-0.96	0.99	0.99
2009-10	0.90	0.82	0.75	0.62	0.91

Source: Calculated values compiled from AMFI & Nifty

Exhibit -3 **Correlation with Sensex**

Year	HDFC	Franklin	UTI	Birla	Reliance
2007-08	0.99	0.98	0.80	0.98	0.99
2008-09	0.99	0.99	-0.96	0.99	0.99
2009-10	0.98	0.83	0.71	0.09	0.99

Source: Calculated values compiled from AMFI

Investment of mutual fund in growth option indicates that, majority of allocation of fund will be invested in equity shares of various companies, so apparently there will be correlation between market indices and NAV of Growth Funds. In order to know the correlation between the NAV and Market Indices, here five top growth funds are selected and compared with BSE's Sensex and NSE's Nifty with NAV, So the comparison indicates, correlation is almost positive and very close to 1 (one) in majority of the cases.

Equity Index Fund

Equity index fund is the fund where the investment is made in equity market index like Sensex and Nifty. This is one of the most important schemes of the mutual fund which gives generally higher return as shown in Exhimit-4.

Exhibit 4 - **Comparison of Index Funds with Market Indices**

No.	Scheme	AMC	Scheme Returns	Index Returns**	Difference in % *
1	HDFC Index Sensex Plus Plan	HDFC Mutual Fund	10.81	7.84	37.88265
2	ICICI Prudential Index-Nifty Plan	ICICI Prudential Mutual Fund	9.15	7.22	26.7313
3	ICICI Prudential Index Plan	ICICI Prudential Mutual Fund	9.15	7.84	16.70918
4	ICICI Prudential Spice Fund (S)	ICICI Prudential Mutual Fund	7.57	7.22	4.847645
5	Birla Sun Life Index Fund	Birla Sun Life Mutual Fund	7.92	7.84	1.020408
6	ICICI Prudential Spice Fund (N)	ICICI Prudential Mutual Fund	7.57	7.84	-3.44388
7	ING Vysya Nifty Plus Fund	ING Vysya Mutual Fund	7.06	7.84	-9.94898
8	SBI Magnum Index Fund	SBI Mutual Fund	5.61	7.84	-28.4439
9	HDFC Index Sensex Plan	HDFC Mutual Fund	3.81	7.84	-51.4031
10	LICMF Index Fund - Sensex Advantage Plan	LIC Mutual Fund	2.26	7.84	-71.1735

Source: http://www.myiris.com//mutual/topgainers/index.php

*Percentage change in schemes over market indices

** Return of schemes for period corresponding.

Value may differ from scheme to scheme due to differential NAV reporting period

*** Figures are taken and calculated as on 16.06.2010 from www.myirics.com

For the purpose of study, 10 Index funds are taken from different AMCs and compared with their benchmark indexes. HDFC Index Sensex Plus Pan and ICICI Prudential Index Nifty Plan have given 37.88% and 26.73% respectively which shows the efficiency of the fund for the last three years. LICMF Index Fund Sensex Advantage Plan and HDFC Index Sensex Plan have given negative returns for the same.

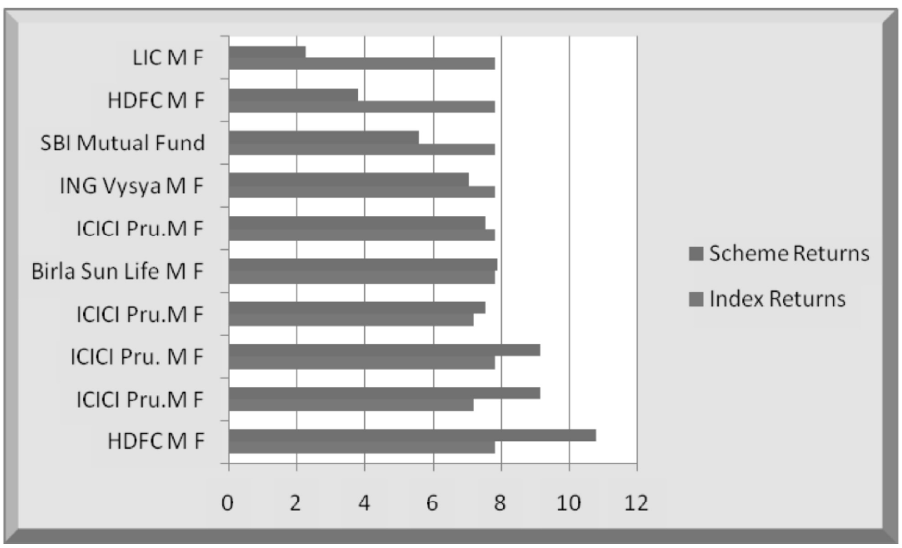
Exhibit 5 – Average **Change of Return from 2007-08 - 2009-10**

Period	Nifty	BSE Indices	Average	HDFC	Franklin	UTI	Birla	Reliance	Av. of NAVs
07-08-Q1-Q2	8.62	9.57	9.1	11.08	12.73	1.66	12.14	13.73	10.27
07-08-Q2-Q3	27.69	24.95	26.32	23.88	17.06	1.32	18.03	22.31	16.52
07-08-Q3-Q4	-6.75	-7.52	-7.13	-4.96	-7.43	1.8	-7.72	-6.97	-5.06
Av. Of 2007-08	**9.86**	**9.0**	**9.43**	**10**	**7.45**	**1.59**	**7.48**	**9.69**	**7.24**
08-09-Q1-Q2	-11.47	-12.18	-11.82	-8.01	-13.75	1.02	-13.21	-12.62	-9.3
08-09-Q2-Q3	-29.68	-30.19	-29.93	-24.63	-31.25	4.24	-28.57	-24.48	-20.94
08-09-Q3-Q4	-5.31	-6.92	-6.11	-6.68	-10.98	2.66	-7.12	-6.2	-5.66
Average of 2008-09	**-15.48**	**-16.43**	**-15.96**	**-13.11**	**-18.66**	**2.64**	**-16.3**	**-14.43**	**-11.97**
09-10-Q1-Q2	15.72	7.8	11.76	24.07	27.83	-0.13	18.41	20.06	18.05
09-10-Q2-Q3	9.33	9.33	9.33	13.35	18.49	0.48	12.3	13.08	11.54
09-10-Q3-Q4	2.08	0.42	1.25	1.27	-16.04	1.07	-36.25	3.01	-9.39
Average of 2009-10	9.04	5.85	7.45	12.9	10.09	0.47	-1.85	12.05	6.73
Average of 3 years	**1.14**	**-0.52**	**0.31**	**3.26**	**-0.37**	**1.57**	**-3.56**	**2.44**	**0.67**

Source: Calculated values compiled from BSE, NSE & AMFI

The correlation of mutual funds with NAVs it is almost nearer to 1, but in terms of returns mutual funds have given higher returns. So it seems that, investment in mutual fund is quite sensible than direct capital market, not only because of return but also for risk diversification, professional management and other benefits.

Figure- 1 Comparative returns of Index and NAVs



www.amfi.com

When we compare the investment in mutual fund and stock market, generally risk and return will be kept in mind. Investment in stock market has enormous risk and expected return is also more. However the mutual fund overcomes the negative aspects of stock market like risk and uncertainty of return. Market over performed in some cases and in other cases mutual fund performance is quite more than market performance. So overall conclusion can be drawn based on the above exhibits and diagram, investment in mutual fund is quite good compared to direct capital market as it gives higher return at moderate risk.

Findings

The study shows the performance of top five growth funds and 10 index funds along with their correlation with Sensex and Nifty, thus the correlation is almost perfect positive in many of the cases, but the percentage change in the schemes for years is different with market indices. This is happened because of fund allocation with different sources. So it shows clearly that, mutual funds are performing better than stock market. The average change of returns of mutual funds are more than 34% for the last three years and at the same time market indices have shown 22% change for the same period and the overall performance of Reliance and Birla Sun life mutual fund is quite good compared to other schemes.

Exhibit 6. **Performance of Funds as on 01.04.2010**

Equity Diversified Funds	**Return in % of last one year**	**Equity Tax Savings Funds**	**Return in % of last one year**
ICICI Pru. Discovery	155.2	ICICI Pru. Tax Plan	120.6
IDFC Premier Equity Fund	109.8	Can Robeco Equity Tax Fund	113.4
Principal Emer-Blue Fund	150.4	HDFC Tax Saver Fund	110.5
ICICI Pru. Emer-STAR	132.7	Franklin (I) Tax Shield	89.4
Birla SL Div. Yield	102.6	Reliance Tax Saver	91

Source: www.moneycontrol.com/marketedge/mf_01042010.html

It is observed from all the above exhibits that, mutual funds have yielded higher returns and grown at faster rate than market indices. ICICI Pru. Discovery, Tax Plan, Principal funds have given around 150% return/change whereas Market Indices or benchmark has not been changed at the same rate. Reliance Vision, HDFC Top-200 and most of the growth funds have given around 100% return. So it shows clearly that, investment in mutual fund is quite better.

Conclusion

Mutual fund towers over the other investment alternatives. Investors usually get confusion while investing as he has plenty of opportunities like stock market, mutual fund, provident fund, real estate etc. The mutual fund is proved to be a safer mode of investment and has been giving good returns compared to other investments and it is highly cost efficient and very easy to invest in, however it has got same kind of risk like direct capital market.

Therefore investors have to think and choose the best alternative of investments. In case of mutual fund the scheme which matches the need and objective of investors is very much essential to think. Longer the term of investment in mutual fund will give higher the return.

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