Chapter 32

Mutual Fund Performance and Investor’s Perception: An Indian Perspective

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ABSTRACT

The Indian mutual fund industry is playing a significant role in the development of capital market and in the growth of the Indian economy. It is considered to be a better opportunity where savings are collected from investors and diverted to the capital market to generate better returns for them with lower risk and volatility. Hence, it is of utmost significance to understand the mutual fund industry in India. As such, this chapter makes an attempt to review the various literatures available in regard to mutual funds to evaluate the performance of various mutual fund schemes and to study the investor’s perception in selection of a mutual fund. The study shows that mutual funds have failed to offer advantages of diversification and professionalism to the investors and hence could not fulfil their scheme’s objectives. It is also found that retail investors are still confused about the mutual funds as an investment avenue. In order to attain sustained profitable growth, the industry should focus on developing distribution networks, increasing retail participation and expanding the reach of mutual funds by conducting awareness programs and extending financial literacy.

1. INTRODUCTION

A mutual fund is a mechanism of pooling together the savings of a large number of investors for collective investments with the objectives of attractive yields and appreciation in their value. It mobilises the savings, particularly of the small and household sectors, for investment in financial market instruments such as shares, debentures and other government securities. The income

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earned through these investments and the capital appreciation realized are shared by its unit holders in proportion to the number of units owned by them. The Securities and Exchange Board of India (Mutual Funds) Regulation Act, 1993 defines a mutual fund as “a fund established in the form of a trust by a sponsor, to raise money by the trustees through the sales of units to the public, under one or more schemes, for investigating in securities in accordance with these regulations” (Gurusamy, 2007). Retail investors are steadily banishing from the stock market and diverting savings into mutual fund sector. They acquire stocks or bonds through mutual funds at lower trading costs and get the benefit of diversification and risk minimization (Khare, 2007).

The mutual fund industry in India made its debut in 1964 with the establishment of Unit Trust of India (UTI), the largest public sector mutual fund in the world. The first unit scheme offered by UTI was the US-64. The main purpose behind introduction of UTI was effective mobilizing as well as channeling of small savings into productive sectors for economic acceleration of the country. Non-UTI mutual funds debuted in India in 1987 with the establishment of SBI Mutual Fund, bringing an end to UTI’s monopoly in this sector. It was followed by many other public sector mutual fund set up by public sector banks, LIC and GIC. A tremendous growth has been witnessed in India in the financial market since 1991 with liberalization in India economy. Consistent with this evolution, Indian mutual funds industry has also witnessed a rapid growth. Foreign companies were also permitted to start mutual funds in India. The revolution was the outcome of policy proposal taken by the Government of India where by public sector banks, insurance sectors and foreign companies were permitted to enter the fund market (Gupta, 2000). In a short span of less than one decade, India has observed a changed in the investment pattern of small and medium investors. India’s market for mutual fund has witnessed a CAGR of about 29% in a five year period from 2004-2008 as against global average of 4% which accounts as the most rapidly growing market in the world (Gupta, 2011). India has secured the best position among the top ten globally reputed mutual funds as far as growth of the funds are concerned. It has even moved India from 27th place to 26th place in the recent past. Mutual funds transactions on the stock exchanges have also witnessed an inspiring growth over the years. They indeed have been playing a stabilising role in the ever volatile stock markets (Chary & Masood, 2010-2011).

Retail investors face many hardships in stock market investment decision making. They are not familiar with market performance and lack knowledge about maximising returns by proper selection of securities and timing of investment. As such, mutual funds are the secured way for those investors to enter the capital market (Viramgami, 2009). Large market potential, rising income, high saving rate, growing risk appetite, comprehensive regulatory framework by SEBI, favourable tax policies, introduction of new products, increasing awareness etc have made mutual funds a preferred investment option (Rekha, 2012). The reason behind such a considerable attraction towards mutual funds was essentially due to assured returns along with security to investors’ investment (Sanyasi, 2013). The regulating authorities namely Securities and Exchange Board of India (SEBI) and Association of Mutual Funds in India (AMFI) are trying to protect the investors in India by supervising and regulating mutual fund industry (Santhi & Gurunathan, 2011). Penetration of mutual fund market has been only 13.7% unit holders from rural area and 38% from urban area. It portrays a very lethargic escalation in the industry. However, with a booming economy and 32.4% saving rate in India, there are lot of scope for favourable growth of mutual fund industry in India (Pandey, Rathore, & Khare, 2007).