Journal DOI: 10.36713/epra1013|SJIF Impact Factor (2021): 7.473 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 9 | Issue: 11| November 2022 -Peer-reviewed Journal

GROWTH OF MUTUAL FUND SECTOR IN INDIA

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ABSTRACT

Today's mutual fund industry is one of India's most attractive investment avenues. allows for relatively inexpensive investment in a diversified, expertly managed basket of securities. Different strategies are available through mutual funds for various investing goals. These schemes' main goals are to provide short-term liquidity, capital protection, and liveable income. Most pooled funds are invested in short-term, safe financial products like Treasury Bills, Commercial Paper, Certificates of Deposit, and Inter-Bank Call Money. In India, mutual funds have advanced significantly during the past two to three decades. The most popular investing choice for regular investors right now is mutual funds. For most sorts of investment demands and risk profiles, mutual funds provide a broad range of investment choices.

KEYWORD: ***Growth, Investment Choices, Mutual Fund***

INTRODUCTION

Today's mutual fund industry is one of India's most attractive investment avenues. A mutual fund is a good investment option for medium and small investors who have limited resources and need to gain professional knowledge about the stock market and other investment opportunities. Mutual funds are a significant financial intermediary collecting funds from small investors and investing them in financial market securities. "A mutual fund is an investment company or trust that pools the resources of thousands of its shareholders or unit holders. It then invests it on behalf of these diversified securities and a cross-section of companies to attain the investors' objectives, achieving income or growth, i.e., steady return or capital appreciation or both along with low risk." Thus, mutual funds offer several benefits to the investors like diversification, professional management, tax benefits, transparency, liquidity, flexibility, choice of schemes, low cost, etc.

Mutual funds act as an intermediary where the investors get the convenience of investing with a comparatively small amount in the professionally managed portfolio along with other facilities that increase the investor's attraction towards the country's capital market.

PROBLEM STATEMENT

Growth of the Mutual Fund Sector in India

Significance

A mutual fund is one of the most practical investment options for modest investors since it allows for relatively inexpensive investment in a diversified, expertly managed basket of securities. Different strategies are available through mutual funds for various investing goals.

Objective

These schemes' main goals are to provide short-term liquidity, capital protection, and liveable income. Most pooled funds are invested in short-term, safe financial products like Treasury Bills, Commercial Paper, Certificates of Deposit, and Inter-Bank Call Money.

Secondary Research

Timeline:

History of Mutual Funds in India

A vibrant financial market with wide participation is crucial for a developed economy. The Government of India and the Reserve Bank of India took the initiative to establish India's first mutual fund, Unit Trust of India (UTI), with the broad goal of "encouraging saving and investment as well as participation in the income, profits, and gains accruing to the Corporation from the acquisition, holding, management, and disposal of securities."

The MF Industry has expanded tremendously in recent years. The development of mutual funds in India can be roughly divided into the following five phases:

First Phase - 1964-1987:

In India, the first mutual fund company, UTI, was established in 1963 by a parliamentary act, and it operated under the administrative and regulatory oversight of the Reserve Bank of India (RBI). The Industrial Development Bank of India (IDBI) replaced the RBI as the regulatory and administrative authority over UTIs in 1978 after delinking from the RBI. Unit Scheme 1964 (US '64) was UTI's initial program. UTI had under management $6,700 crores in assets by the end of 1988. (AUM).

Second Phase - 1987-1993 - Entry of Public Sector Mutual Funds:

Public sector banks, Life Insurance Corporation of India (LIC), and General Insurance Corporation of India launched public sector mutual funds in 1987. The first "non-UTI" mutual fund was created in June 1987 by SBI Mutual Fund, followed by Can bank Mutual Fund in December 1987, Punjab National Bank Mutual Fund in August 1989, Indian Bank Mutual Fund in November 1989, Bank of India in June 1990, and Bank of Baroda Mutual Fund in June 1990. (Oct. 1992). While GIC had formed its mutual fund in December 1990, LIC did so in June 1989. The MF sector had 47,004 crores in assets under management at the end of 1993.

Third phase - 1993-2003 - entry of private sector mutual funds

With the foundation of SEBI in April 1992 to safeguard the interests of investors in the securities market, encourage its growth, and regulate it, the Indian securities market gained more significance.

The first set of SEBI Mutual Fund Regulations, which apply to all mutual funds except UTIs, was established in 1993. The first private sector MF registered in July 1993 was the former Kothari Pioneer, which has since amalgamated with Franklin Templeton MF. A new era in the Indian MF business began in 1993 with the introduction of private sector funds, offering Indian investors a greater selection of MF products. In 1996, a comprehensive set of regulations was updated to replace the original SEBI MF Regulations.

Over the years, more and more international sponsors established mutual funds in India, increasing the number of MFs. During this decade, the MF business also saw several mergers and acquisitions. There were 33 MFs as of the end of January 2003, with a combined AUM of 1,21,805 crores, of which UTI alone had an AUM of 44,541 crores.

Fourth phase - from February 2003 – April 2014

After the Unit Trust of India Act of 1963 was repealed in February 2003, UTI was divided into the Specified Undertaking of the Unit Trust of India (SUUTI) and the UTI Mutual Fund, which operates by the SEBI MF Regulations. The former UTI was split into two, and several private sector fund mergers occurred, ushering in the MF sector's fourth consolidation phase.

Following the global financial crisis in 2009, stock markets worldwide collapsed, including those in India. Most investors who entered the capital market at its peak lost money, which seriously weakened their faith in MF products. The Indian MF Industry had already been negatively impacted by the global financial crisis and the SEBI's elimination of Entry Load. For over two years, the industry struggled to recover and transform itself to maintain its economic viability, as evidenced by the slow growth in MF Industry AUM from 2010 to 2013.

Fifth (Current) Phase – Since May 2014

To "re-energize" the Indian mutual fund industry and increase MFs' penetration, SEBI introduced several progressive measures in September 2012. This was done in recognition of the low penetration of MFs, particularly in tier II and tier III cities, and the need for greater alignment of the interests of various stakeholders.

After the worldwide meltdown, things started to turn around thanks to the measures, and things dramatically got better once the new government was established at the center.

Since May 2014, the sector has experienced consistent inflows, growth in AUM, and an increase in the number of investor folios (accounts).

~On May 31, 2014, the industry's AUM reached the milestone of $10 trillion (ten lakh crore), and in just three years, it expanded more than twofold. In August 2017, it reached the milestone of $20 trillion (twenty lakh crore).

~In November 2020, the AUM size surpassed 30 trillion (or 30 Lakh) for the first time.

~The whole size of the Indian MF Industry increased more than five times in just ten years, from 7.53 trillion on August 31, 2012, to 39.34 trillion on August 31, 2022.

~The AUM of the MF Industry increased nearly twofold in just five years, from 20.59 trillion on August 31, 2017, to 39.34 trillion on August 31, 2022.

~From 6.08 crore investor folios as of August 31, 2017, to 13.65 crores as of August 31, 2022, there has been a more than 2-fold rise in just five years.
~In the five years since August 2017, 12.60 lakh new folios have been added on average per month.

The regulatory actions made by SEBI to re-energize the MF Business in September 2012 and the support from mutual fund distributors in growing the retail base has had a dual effect that has allowed the industry to increase in size.

The last-mile connection between investors and MF Distributors has been greatly needed, especially in smaller towns. This connection not only allows investors to invest in suitable schemes but also supports them in staying on track during periods of market volatility to benefit from mutual fund investing.

Systematic Investment Plans (SIP) have become increasingly popular, thanks largely to MF distributors. The number of SIP accounts surpassed the one billion milestones in April 2016; as of August 31, 2022, there are 5.72 billion accounts overall.

Beginning Of Mutual Funds In India

The Unit Trust of India was the first business to offer mutual funds. It was established in 1963 as a joint venture between the Indian government and the Reserve Bank of India. The UTI's goal was to help small, uneducated investors who sought to purchase stock and other financial goods from bigger companies. Back then, UTIs had a monopoly. The Unit Scheme 1964 was a mutual fund product it offered for several years.
India's mutual fund business has gone through at least four stages.

Mutual Funds History: Inception Stage (1964-87)

The UTI's establishment signaled the beginning of the period. Although the RBI and the Indian government worked together, the latter was quickly removed from the Unit Trust of India's daily activities. The business was India's sole provider of mutual funds during this time. The Unit Linked Insurance Plan, or ULIP, was introduced in 1971 by the UTI. UTI launched several plans between that year and 1986, during which time it significantly contributed to the introduction of the mutual fund concept in India.

When UTI was founded several years ago, the intention was to establish a nation-building corpus and introduce the mutual fund concept to India. Therefore, the government included some income-tax rebates in the UTI programs to entice small Indian investors. The investible capital of UTI increased significantly from 600 crores in 1984 to 6,700 crores in 1988, which is not surprising. It was time for the Indian mutual business to enter its next stage.

History Of Mutual Funds: Public Sector Entry (1987-1993)

The mutual fund business had developed its character by the end of 1988. Many public sector banks started urging the government to create mutual fund divisions as early as 1987. The State Bank of India established the first non-UTI Asset Management Fund in November 1987. The establishment of more AMCs by institutions, including Canara Bank, Indian Bank, Life Insurance Corporation, General Insurance Corporation, and Punjab National Bank, came swiftly after this.

The expected outcomes were achieved through the mutual fund industry's opening up. The total corpus of all AMCs increased to a staggering Rs. 44,000 crores in 1993. According to industry watchers, the sector's base grew during the second phase and encouraged individuals to invest a larger proportion of their resources in mutual funds. It was clear that India's mutual fund market was primed for more expansion.

History of Mutual Funds: Private Sector Phase (1993-1996)

The Indian government came to understand the value of economic liberalization in the years between 1991 and 1996. Reforms in the financial industry were urgently needed. India's economy requires private sector involvement to recover.

In light of this, the government allowed private entities to participate in the mutual fund sector. This action was well received by foreign competitors, who flooded the Indian market. Eleven private players launched their asset management funds while working with overseas entities.
Top AMCs in the private sector included:

- ICICI Prudential AMC—ICICI Bank of India and Prudential Plc are partners in this company. It has an inventory of more than 1400 programs and maintains a $2, 93,000 crore capital.
- The HDFC Mutual Fund was established in the 1990s and currently oversees more than 900 distinct types of funds.

The asset base of this AMC, Kotak Mahindra Mutual Fund, exceeds Rs. 1,19,000 crores. It is a partnership between the Mahindra Group and Kotak Financial Services.

History Of Mutual Funds: The Consolidation Phase (February 2003 – April 2014)

Following the revocation of the original UTI Act of 1963, the Unit Trust of India was divided into two distinct companies in February 2003. The UTI Mutual Fund, subject to SEBI regulations for MFs, and the Specified Undertaking of the Unit Trust of India were the two entities (SUUTI). The mutual fund business moved closer to the consolidation phase after this division of the old UTI and multiple mergers among various private sector firms.

The financial markets were at an all-time low following the 2009 global economic recession, and the Indian market was no exception. Most investors who invested during the market's zenith experienced significant losses, and this seriously undermined investors' confidence in MF products. Over the following two years, the Indian mutual fund industry battled to bounce back and reinvent itself. With SEBI eliminating the entry load and the long-lasting effects of the global economic crisis, the situation became even more challenging. The gradual increase in the Indian MF industry's total AUM makes this picture clear.

History Of Mutual Funds: Phase Of Consistent Growth And Development (Since May 2014):

Since mutual funds are not widely used in India, particularly in tier II and tier III towns, SEBI initiated many progressive initiatives in September 2012. These initiatives were intended to increase security and transparency for the benefit of all parties. To "re-energize" the Indian MF Industry and increase the overall penetration of mutual funds in India, SEBI came up with this plan.

The actions successfully reversed the downward trend that the global financial crisis had started in due time. After the center's new government took office, things significantly got better.

Since May 2014, the total AUM and the number of investor accounts have consistently increased in the Indian MF sector (portfolio).

Currently, the assets under management by all Indian asset management firms are over Rs. 23 lac crore. Even if this number seems promising, we still have a long way to go before we can compete with the west.

Indians are thought to save between 20 and 30 lakh crore rupees yearly. If Indians began to invest a larger portion of their savings in mutual funds, the mutual fund sector in India could expand significantly. Indians, according to observers, have started moving some of their wealth away from tangible assets like gold and land into financial products like bonds and silver. However, the AMFI and the government must promote mutual fund investments among Indians.

OPPORTUNITIES IN THE MUTUAL FUND SECTOR

1. LOW PENETRATION

There are over 8.5crore registered taxpayers in India, but out of them, only 2.5 crore people invest in Mutual Funds. For the country as a whole, the AUM/GDP stands at approx. 6.99%. When this ratio is calculated for the first decile of districts, the ratio is 29.52% - slightly lower than the world average. However, the rest of India paints a dismal picture, with the AUM/GDP ratio at 1.82% (Taken from SEBI).

2. RISING MIDDLE-CLASS INCOME

India's middle-class population has grown significantly. In 2005, one in 15 households was classified as upper middle class; by 2018, that number had increased to one in five. There are 6.1 crore upper-middle-class households in India today. Only two core opt to invest in mutual funds,

3. RISK-TAKING APPETITE

Since India now has the world’s youngest population, the risk-taking ability has grown compared to the previous generations. With decrease in interest rates and an increase in inflation, the risk taking appetite seems to be only growing, So naturally there is a move from Physical Assets like Gold, Real-estate to Market Linked assets like Mutual Funds, Stocks. This trend is exhibited in the image.

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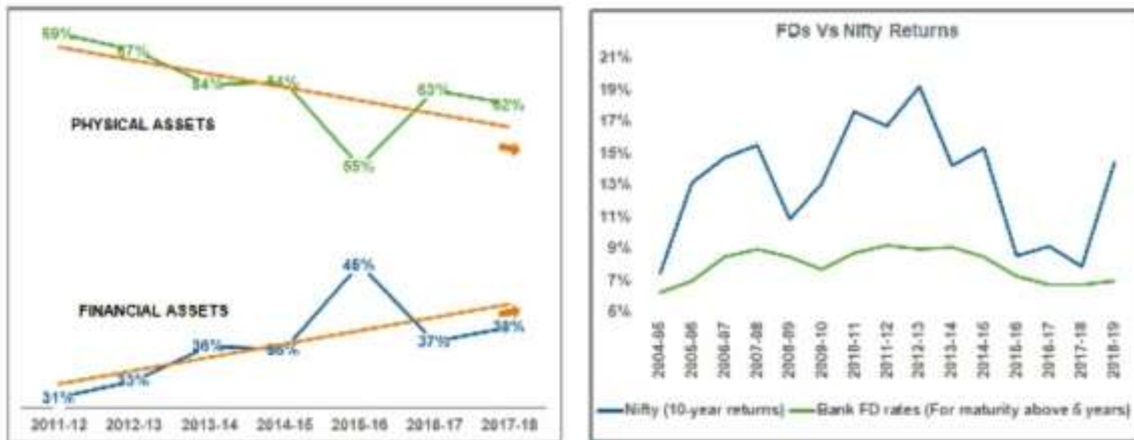

4. Millennials & Senior Citizens

A third of our country's people are millennials, who make up 46% of the workforce and contribute 70% of all household income, according to a Deloitte report. There is no question that this market segment offers a sizable growth opportunity.

But as the percentage of senior citizens rises, India will have 3.5 crore of them by 2030. Seniors need solutions that not only beat inflation but also support them during their golden years due to factors such as rising medical costs, a lack of social security, and increased life expectancy. The opportunity lies in providing seniors and millennials with decumulation and accumulation solutions, respectively, which mutual funds are well suited to do.

CHALLENGES

The Transition From Awareness To Education:

1. Simplified Operational Process

While the mutual fund industry has made significant strides in standardising processes, but few challenges still remain: such as a simplified KYC to make on boarding hassle-free; making Aadhar inter-changeable with PAN; and allowing investments on the basis of 'Bank KYC'

2. Limited Pricing Structures

Limited Flexibility in Fees and Pricing Structures The fee structure in the Indian mutual fund industry enjoys little flexibility unlike developed markets where the level of management fees depend on a variety of factors such as the investment objective of the fund, fund assets, fund performance, the nature and number of services that a fund offers

PUBLIC SECTOR VS. PRIVATE SECTOR

Objectives

1. To study the Gap mobilization of resources in public and private sector mutual funds.

2. To study the gap in redemption / repurchase by the public and private sector mutual funds. 3. To compare the performance of public and private sector mutual funds in India.

Research Methodology

The Study: The present study is exploratory. Two mutual funds viz. public sector mutual funds and private sector mutual funds have been selected for this study.

The Sample: The study covers twelve years, i.e. from 1998-99 to 2009-10. Editing, classification and tabulation of the financial data collected from the secondary sources have been done as per the requirement of the study.

Tools for Data Collection: The study is based on the secondary sources of information collected from the various related fact books along with the AMFI, SEBI, published annual reports, manuals and other office records.

Tools for Data Analysis: To analyze the collected data of both the categories of funds, mean, percentage and correlation coefficient has been applied. In order to measure the extent of difference between various parameters of study regarding mutual funds with their special reference to the mobilization of fund,

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repurchase/redemption, cumulative net assets position, net in/outflow of the two sectors of mutual funds industry i.e., private sector mutual funds and public sector mutual funds, the Gap-Index Analysis is carried out as suggested by Sharad Kumar and Sreeramulu (2007).

The Gap-indices is a percentage of the difference of the value of the variables between public (PB) and private (PV) sector mutual funds as the ratio of aggregate value. The purpose of the Gap-index construction is to see whether or not the gap between two sectors is

Prestige e-Journal of Management and Research Volume 1, Issue 1(April 2014) ISSN 2350-1316 changing over period of study (1998-99 to 2009-10). It is suitable to give a graphical presentation of the changing pattern in the gap, to have anan idea about the fluctuations in the gap. The analysis through Gap-Indices is considered as a non-parametric technique, and advanced statistical techniques are not considered appropriate as the gap between two sets of mutual funds (public and private), on the variables are expected to be quite large.

- **GAP-INDEX (G.I) = | {(PB-PV)|/ (PB+PV)} X100 RESULTS AND DISCUSSION**

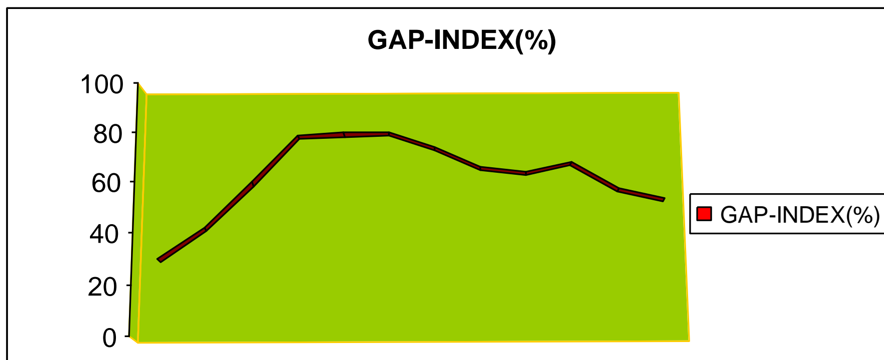
The Gap Index Analysis has been used to measure the extent of difference between mobilization of funds and repurchase / redemption of the public and private sector mutual funds in India. These variables are being analysed in Table 1 and Figure 1 as under:

Gap-Index Analysis of Mobilization Of Funds In Public And Private Sector

In order to measure the extent of difference between mobilization of funds by public-sector and private sector mutual funds spread over 12-years period of study, the Gap-Index-Analysis was adopted as per methodology discussed earlier. The table 1 gives the gap index values in respect of mobilization of funds for private sector and public-sector mutual funds from 1998-2010. Table 1 exhibits that the gap index values in respect of mobilization of funds for public and private sector are 31 percent in the year 1998-99, 43 percent in 1999-2000, 61 percent in 2000-01, 80 percent in 2001-02, 81 percent in 2002-03 and 2003-04, 75 percent in 2004-05, 67 percent in 2005-06, 65 percent in the year 2006-07, 69 percent during the year 2007-08, 58 percent in 2008- 09 and 54 percent in the year 2009-10. Thus, it ranged from 31 percent in 1998-99 to 54 percent in 2009-10. This shows that the gap has been widening very fast up to 2003-04 and has shown a decline thereafter. The analysis also suggests that the private sector mutual funds are gaining more in terms of the mobilization of funds compared to that of public sector mutual funds.

YEARS	PB	PV	GAP-INDEX (percent)
1998--99	14864.23	07846.50	31
1999--00	17515.57	43725.66	43
2000--01	17948.28	75009.11	61
2001--02	16724.91	147798.26	80
2002--03	30610.70	284095.49	81
2003--04	55540.59	534649.28	81
2004--05	103245.07	736463.30	75
2005--06	183446.05	914703.26	67
2006--07	338619.53	1599873.44	65
2007--08	683623.69	3780752.63	69
2008--09	1133602.96	4292750.31	58
2009--10	2320539.26	7698483.37	54

Source: Complied from the Annual-Reports



Trend of the Gap Based on Mobilization of Funds in Public Sector and Private Sector Mutual Funds Data Set

CORRELATION ANALYSIS

In order to measure the relative on between the gap index of mobilization of funds and redemption/purchase, Karl Pearson's coefficient of correlation(r) is calculated. The coefficient of correlation (r) is found to be of the order of .92 and is found to be sign1 percent at a 1 percent level of significance. The analysis suggests that there is strong evidence of a relationship between the pattern of the gap–movement over different periods of the study between mobilization of funds and Redemption/Repurchase of public sector and private sector mutual funds. Figure 3 shows the superimposition of the two Gap-Indices curves and the relationship is self-explanatory.

However, it may be mentioned here that the individual, growth in mobilization of funds for public and private sectors are 63percent and 75 percent respectively. In redemption/repurchase/repurchase these are 63 percent and 80 percent respectively, which further strengthens the redemption/repurchase/repurchase are showing almost the same status of growth as in the case of mobilization of funds. As discussed above, this phenomenon has a high degree of correlation between gap-indices.

LIMITATIONS OF THE STUDY

1. The study confined only public and private sector mutual funds in India and covers only twelve years, i.e. from 1998-99 to 2009-10.
2. As the study is based only the secondary sources of information, it faced asymmetry problem of timing for getting equal times results of mutual funds.
3. Only the gap index analysis has been used to conclude that too for two aspects: mobilization of funds and repurchases and redemptions of mutual funds in India.

CONCLUSION AND SUGGESTIONS

On the basis of the foregoing analysis, the following conclusions and suggestions can be made:

1. To measure the extent of difference between the mobilization of funds by public and private sector, the period spreads over 12 years. The Gap-Index Analysis was adopted. It is observed that the gap has been widening very fast up to 2003-04 and has shown a decline thereafter.
2. The private sector mutual funds are gaining more in terms of the magnitude of mobilization of funds compared to that of the public sector.

Prestige e-Journal of Management and Research Volume 1, Issue 1(April 2014) ISSN 2350-1316

3. The gap is reaching up to 81 percent in 2003-04 from 31 percent in 1998-99 and finally settled at 54 percent in 2009-10.
4. If the trend continues to be the same, it is likely that both the private and public sector mutual funds may come more closure to each other in terms of mobilization of mutual funds.
5. The Gap-Index-Analysis suggest that the year 1998-99 is an outlier or abnormal (as reported earlier also). The index shows some difference but from 1999-00 onwards a steady growth is observed up to 2003-04 with a peak of 81 percent Gap-Index.
6. The gap in redemption also started receding after 2003-04 and touched a point of 54 percent during 2009-10.
7. It may be projected that the redemption in private and public sector mutual funds may show quite closeness after 2009-10.

8. To measure the relation between Gap-Index of mobilization of fund and redemption / repurchase a high degree of coefficient of correlation of the order of .92 is found to be significant at 1 percent level of significance.
9. The analysis suggests that there is a strong evidence of a relationship between the pattern of the gap movement between the mobilization of funds and redemption / repurchase of public and private sector mutual funds.

UNDERSTANDING RETURNS FROM MUTUAL FUNDS

Measuring Performance

One should not be misled by a mutual fund scheme's return while evaluating its performance. A plan might have produced an annualised return of 10% during the previous couple of years. But even the market indexes would have increased in a similar fashion throughout that time. You should reassess your investment if it underperforms in a bear market, that is, if the scheme's NAV declines more than its benchmark (or the market).

The return of the plan must be compared to its benchmark return. It is preferable to remove investments from one's portfolio that persistently underperform in comparison to their benchmark over time. Over a longer time horizon, it is critical to detect underperformers (as also out-performers).

Additionally, one may think about assessing the "category average returns" as well. There could be schemes in the peer group that perform better, even if a plan has significantly surpassed its benchmark. The category average returns will show how well (or poorly) one's investment performs in comparison to its peers, which can help determine when to switch the investment to a better performer.

It's possible to own a portfolio that is either under or over-diversified. Even some of the schemes that one might be investing in may have high expenditure ratios when compared to other investments in the same category.

The evaluation critically assists an investor in determining whether the investments align with his or her aims.

How Often Should One Review

The urge to evaluate the fund's performance each time the market declines or increases dramatically should be resisted. In order for an actively managed equity scheme to produce returns in the portfolio, one needs to be patient and give the fund a reasonable amount of time (between 18 and 24 months).

The review may be more pronounced in the case of sectoral or thematic plans because they are more susceptible to the shifting business climate.

Making a separate watch list of funds that are found to be underperforming their benchmark or their comparable peers is advised for regular investors. Based on this list, one should look for performance improvement over the following two to three quarters. An investment may need to be switched to a better option if it consistently performs poorly for three to four quarters. Even more investigation is required to determine the cause of the underperformance, which may be revealed in the fund manager's commentary. The underlying stocks in a mutual fund scheme's portfolio are constantly changing, and this changes the risks involved. The risk metrics are a significant factor. It may be wise to withdraw from the fund if its risk profile has shifted further in favour of "High" risk while its returns have remained flat or even decreased.

As a result, it might be more beneficial to look at the fund's risk-adjusted return, which measures how much return an investment will produce given the risk associated with it.

High return with low risk is always preferable for investors. Therefore, MF products with high risk-adjusted returns are in high demand. Several rating agencies do an excellent job of capturing risk-adjusted returns.

The winners of today might not be able to maintain their winning streak for many more years. In other words, it's not always beneficial to evaluate performance, as described before. Additionally, monitoring and assessing a scheme's portfolio is very different from doing so for one's personal portfolio. Investors in mutual funds shouldn't worry about a fund's portfolio. The fund manager is in charge of that.

Calculating Returns On Mutual Fund Units:

The returns on investments in mutual funds can be determined in a variety of ways. Absolute returns and annualised returns are two of the most widely used techniques.

Unqualified Returns

The straightforward percentage gain (or reduction) in your investment is known as an absolute return. The length of time required for this change is not taken into account.

For example, if you invested Rs. 2,75,000 in an investment with a current market value of Rs. 5,25,000, your absolute return would be: [(5,25,000-2,75,000)/2,75,000]. = 90.9%

Take note of how meaningless the date of investment or redemption is. If your investment term is less than a year, you should ideally employ the absolute returns strategy.

You must annualize returns for periods longer than a year, which implies you must ascertain the rate of return per year.
Yearlyized Returns
The compound annual growth rate (CAGR) measures the return over an investment time. It is a smoothed rate because it computes the growth of an investment on an annual compound basis as though it had developed at a constant rate.
CAGR is calculated as [(Current Value/Beginning Value)^(1/# of Years)]-1
How do I locate the CAGR on a computer?
Use MS Excel's XIRR tool to calculate a CAGR.
8-Jan-06
1,00,000
Put the date and the investment amount in.
31-Dec-12
2,00,000
Date and current value should be entered.
Formula for XIRR 10.43%
When using the XIRR formula to determine the return on cash flows, please remember to use a negative sign. Therefore, there must be a cash influx and cash outflow to calculate returns, which should be denoted by positive and negative signs.

Actively Managed Funds And Passively Managed Funds

Actively managed funds are those that are actively managed by the fund manager, who buys and sells company stocks by the general parameters listed in the scheme information document. These funds purchase and sell based on the fund manager's research rather than imitating the index.

On the other side, passive funds aim to provide returns by imitating an index such a BSE or Nifty. Since the entire purpose of an index fund is to track a particular benchmark, they are also known as passively managed funds.

Watch Out

When redeeming units from equity mutual fund schemes, be careful not to change the composition of your overall portfolio because the proceeds must be reinvested in another equity scheme, which necessitates going through the entire investment selection process. Unless your allocation requires a change, try to keep your exposure to equities at the initial levels.

Regularly monitoring and reviewing mutual fund returns could lead you to make rash decisions. Do not let a fall in NAVs tempt you to discontinue SIPs or redeeming units from a fund. Try to invest a lump sum of money when the market is falling sharply. An annual review comparing the fund with the benchmark and the category peers will certainly help and be advisable.

CONCLUSION

- Different investment avenues are available to investors.
- Mutual funds also offer good investment opportunities to the investors. Like all investments, they also carry certain risks.
- The investors should compare the risks and expected yields after adjustment of tax on various instruments while taking investment decisions.
- The investors may seek advice from experts and consultants, including agents and distributors of mutual funds schemes while making investment decisions.

In India, mutual funds have advanced significantly during the past two to three decades. The most popular investing choice for regular investors right now is mutual funds. For most sorts of investment demands and risk profiles, mutual funds provide a broad range of investment choices.

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