A STUDY ON PERFORMANCE EVALUATION OF SELECTED DIVERSIFYING OF MUTUAL FUNDS EQUITY SCHEMES

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Abstract: *In the past years, the mutual funds investment has been predictable as profitable. This study aims to heave light on the idea of mutual funds. This study aims to provide the basic plan upon a variety of types of mutual funds and factors influence the investment decision in mutual funds. Independently from the factors influence the investment decisions; this study detects the merits and demerits of mutual funds. To analyze the performance of mutual schemes and realize investment options in the mutual fund and to suggest the strategy to invest in mutual fund.*

Key Words: *Mutual funds, Investment, Money market*

1. INTRODUCTION:

Mutual fund is a fund in the form of confidence by a sponsor, to increase money by the trustees through the sale of units to the open, under one or more schemes, for investing in securities in achievement long term return. Mutual fund is a collect the investment from small retail investor. The investment managed by the positive feature expert in mutual fund.

1.1. LITERATURE REVIEW:

In India, capital market make available various investment avenues to the investors the finding of this research study will be help full to their future investment decisions. The mutual fund guarantees the smallest amount amount return to the investors. This study mainly focused on the performance of selected equity large cap mutual fund schemes in term of risk–return relationship the various statistical tools used for calculated the performance of the selected open equity mutual funds schemes. (DR.R.Narayanasamy, 2013) This paper analysis the performance of open ended, growth-oriented. The different mutual fund schemes analysis their performance daily Net Asset Value of schemes. BSE Senses has been used for market portfolio. Results will be useful for investors for taking better investment decision. (Mrs.B.kishori, 2016) Mutual fund invested in a well-diversified portfolio of different companies. The findings of the study reveal that only three schemes have performed better than benchmark. To study the performance evaluation of selected open ended schemes in terms of risk and return relationship. (DR.G.S.BATRA, 2012) The importance of risk and return for any investment, this paper scrutinize risk adjusted returns of mutual funds and complete returns. They have attempted to find out if the fund manager has out performance to find out if the find manager have outperformed the benchmark for performance measure is very important in assess the performance of the mutual fund. (Prof.B.Shivaraj, 2014) Investment decision making just previous to fund by using statistical tools and ratio investigation of mutual fund schemes. The intention of this research works is to exploits the use of statistical tool and ratio analysis in term of financial performance. The research findings are useful to the mutual fund companies in term of appreciate their performance among the mutual fund companies in the market (DR.R.Permal, 2016) Mutual Funds have become a widely popular and effective way for investors to participate in financial markets in an easy, low-cost fashion, while muting risk characteristics by spreading the investment across different types of securities, also known as diversification. (Prof. Kalpesh Prajapti, 2015). A mutual fund is a pool of money collected from many small investors which is professionally managed by the portfolio managers. It is a type of collective investment scheme and invests it various securities such as in stocks, bonds and short-term money market instruments. The performance of the fund depends upon the economic condition of the country and the world as a whole. Dr.S.Vasanthal, Uma maheswari (2014).

2. MUTUAL FUNDS:

2.1. HISTORY OF MUTUAL FUND IN INDIA:

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank of India. The history of mutual funds in India can be broadly divided into four distinct phases

First Phase - 1964-1987

It was started in 1963 with UTI, Government of India and RBI. In 1978, UTI was de-linked from RBI and functioned under the regulatory and administrative control of RBI. First scheme launched by UTI was Unit Scheme 1964.

Second Phase - 1987-1993 (Entry of Public Sector Funds)

In 1987, public sector banks and LIC & GIC got the entry in MF Industry. SBI was the first non-UTI fund establishment in June 1987.LIC established its MF in June 1989 while GIC in Dec 1990.

Third Phase - 1993-2003 (Entry of Private Sector Funds)

In 1993, first MF regulation came into being under which all MF, except UTI were to be registered and governed. Kothari Pioneer (now merged with Franklin Templeton) was the first private sector MF registered in July 1993. 1993 SEBI Regulations were substituted by a more comprehensive and revised regulations in 1996- SEBI (Mutual Fund) Regulations 1996.

Fourth Phase - since February 2003

In February 2003, following the repeal of UTI Act 1963, UTI was bifurcated into two separate entities. One is the Specified Undertaking of UTI (SUUTI). This undertaking is functioning under the rules framed by the Government of India and does not come under the purview of the Mutual Fund Regulations. Second is the UTI Mutual Fund, sponsored by SBI, PNB, and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations.

2.2. TYPES OF MUTUAL FUNDS:

(Source: Ms. Pooja Chaturvedi Sharma and Dr. Anoop Pandey, 2014)

Types of mutual funds can be classified based on structure and asset class.

3. BASED ON STRUCTURE:

3.1. Open Ended Schemes:

This scheme allows public to buy/sell at any point of time. In this, funds are invested in debt shares, Bonds, Money Market, Equities and Index market. The structure doesn't state any fixed maturity date. This scheme is directly proportional to the market volatility.

3.2. Closed Ended Schemes:

It has stipulated maturity period and investors can buy only during the initial launch also called as New Fund Offer (NFO). This involves very low risks and gives a passive protection to the principal amount.

3.3. BASED ON ASSET CLASS:

3.3.1. Equity Schemes:

This category of schemes invests only into shares of companies. It can be further categorized as

a. Index funds:

Index fund schemes are ideal for investors who are satisfied with a return approximately equal to that of an index.

b. Diversified funds:

These funds invest in equity of companies across market capitalizations (the market value of a company's shares) and sectors. The objective of the schemes is to provide long term capital appreciation while reducing risk by diversifying investment.

3.3.2. Debt Schemes:

These funds invest in fixed income bearing instruments like corporate bonds, debentures, government securities, commercial paper and other money market instruments. These funds are relatively low-risk-low-return schemes. The returns from debt funds include interest receipts and capital gains. If you desire relatively stable performance, these schemes are right for you. Debt funds can be further categorized into

- Money market or liquid income schemes

Liquid or money market funds invest in highly liquid money market instruments for very short investment periods such as a few days. These funds are suitable for parking surplus money for a very short period of time.

- Gilt funds

Gilt funds invest in sovereign securities like central and state government bonds. These carry no credit risk but are subject to interest rate risks. The prices of these securities fluctuate with interest rate movements. These funds have varying investment periods to suit investor needs.

- Income funds

These funds invest in government securities, corporate bonds and debentures apart from money market instruments. These funds carry a slightly higher risk than gilt funds as they are exposed to credit risk. Income funds come with various investment horizons like ultra-short term, short term, medium term and long term funds to suit varying investor needs.

d. Fixed Maturity Plans (FMP)

These have a fixed tenure like deposits, though no return is promised or guaranteed. These funds invest in securities that mature in line with the fund's maturity.

3.3.3. Hybrid Schemes

These funds invest in a mix of equity and debt securities. a. Balanced Schemes Balanced schemes invest in a mix of equity and debt. The debt investments ensure a basic interest income, which the fund manager hopes to top with a capital gain from the investment in equities. However loses can eat into basic interest income and capital.

b. Monthly Income Plans

MIPs are suitable for conservative investors who along with an exposure to debt do not mind a small exposure to equities. These funds aim to provide consistency in returns by investing a main part of their portfolio in debt market instruments with a small exposure to equities. Thus an MIP would be suitable for conventional investors who along with protection of capital seek some capital appreciation as MIPs have an exposure to equities. However the monthly income is not assured.

4. ADVANTAGES OF MUTUAL FUND:

- Mutual fund can reduce the fretfulness of invest.
- Mutual fund shares can be purchased in such small sum so it's easy to get started.
- Mutual fund reduces risk through diversified.
- Price movement of mutual fund are more conventional than those of individual stock.
- Mutual fund provides full time specialized management.
- Mutual fund provides a protected place for investment money.

Tools and techniques used

Analysis has been done by using following statistical tools.

1. **Sharpe ratio**: It indicates the risk-return performance of portfolio.

$$\text{Sharpe Index} = \frac{\text{Portfolio Average Return (Rp) – Risk Free Rate of Return (RF)}}{\text{Standard Deviations of the Portfolio Return}}$$

2. **Treynor ratio**: It measure the returns earned in excess of that which could have been earned on investment that has no diversifiable risk.

$$\text{Treynor Index} = \frac{\text{Portfolio Average Return (RP) - Risk Free Rate of Return (RF)}}{\text{Beta Coefficient of Portfolio}}$$

3. **Jensen ratio**: It measures the risk-adjusted performance of a security or portfolio in relation to the expected market return.

$$\text{Alpha } (\alpha) = (Rx - Rf) - \beta(Rm - Rf)$$

4. **Beta**: It measures the volatility or systematic risk of a security with comparison to the market as a whole.

Beta is calculated as,

$$\beta = \frac{\text{Covariance } (Rx, Rm)}{\text{Variance } (Rm).}$$

5. **Standard deviation**: It shows the historical volatility.

$$\sigma x = \frac{\sqrt{\Sigma (Rx-\bar{Rx})^2}}{N}$$

5. CONCLUSION:

Mutual fund investment can hold a great amount of market risk .The investors must have excellent knowledge about the investment. They should possess good knowledge about the risks and return.

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