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ORIGINAL ARTICLE

Applications Of Some Key And Basics Terms Of Mutual Funds

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Abstract:
Mutual funds are one of the popular investments for many types of investors because; mutual funds offer a best convenient, cost-effective and simplest way to invest money in the financial markets.

The Mutual Fund is a trust that pools, collects the small savings of a large number of investors who share a common financial goal i.e. to earn profits. So, the money collected, is invested in capital market, share markets instruments such as debentures, shares and other securities. These all securities are often referred to as the holdings and all of the fund's holdings combined make up the investment portfolio.

The earnings earned through such investments and the capital appreciation realized is shared by its all the unit holders in proportion to the number of units owned by them for the specific periods.

INTRODUCTION

Thus a Mutual Fund is one of the most suitable investments for the common man as mutual fund offers an opportunity to invest in a diversified, professionally managed bag of securities at a comparatively lower cost. The mutual fund is a type of professionally managed investment scheme, which raises money from large number of investors to purchase securities in open securities market.

There is no any legal definition for mutual funds, the term is most commonly used only to those group investment schemes, programmes that are available to the general public and open-ended in nature, who can invest their money.

An investment vehicle that is made up of a pool of various funds collected from many investors with the intention of investing in securities such as shares, stocks, bonds, money market instruments and such types of assets. Mutual funds are run by money managers, who invest the fund's capital and attempt to gains of capital and income for the fund's investors. A mutual fund's portfolio is organized and maintained to match the investment.

Every mutual fund has a specific goal - either growing its net assets i.e. capital gains and generating income or dividends for its large investors. Distributions in the form of short term and long term capital gains and dividends may be paid to shareholders (investors) as income or will be reinvested to purchase more securities.

Like any other business, mutual funds also have risks and costs concerned with the returns. As an investor, the risks of a mutual fund and the expenses incurred for the fund's operation directly impact on the returns of an investor.

HISTORY OF MUTUAL FUNDS:

The mutual fund business is working in India since 1963 with the establishment of Unit Trust of India, as the

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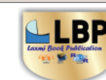

initiative of the Government of India and Reserve Bank of India. The history of mutual funds in India can be discussed as.

Unit Trust of India (UTI) has started its business of units in 1963. UTI was set up by the RBI and functioned under its Regulatory and administrative control. In 1978 UTI was demerged from the RBI and the Industrial Development Bank of India (IDBI) has taken over the regulatory and administrative control at the place of RBI. The very first scheme inaugurated by UTI was Unit Scheme 1964.

In second phase public sector banks entered in mutual fund industry. 1987 has marked the entry of mutual funds other than UTI, public sector mutual funds has also set up by public sector banks and LIC of India and GIC of India. SBI Mutual Fund was the first non- UTI Mutual Fund started in June 1987 followed by Canara bank's Mutual Fund in December 1987, Punjab National Bank has also started Mutual Fund scheme in August 1989. One other, Indian Bank has entered in Mutual Fund industry in November 1989. In June 1990 Bank of India has gone for mutual funds. A new mutual fund was started by Bank of Baroda Mutual Fund in October 1992. Life Insurance Corporation of India has established its mutual fund in June 1989, followed by GIC's mutual fund in December 1990.

In third phase private sector banks also entered in mutual funds industry 1993, while a new time started in the Indian mutual fund market, which has given the Indian investors a wide scope of funds. This year was also the year in which the Mutual Fund Regulations came in-force, under which all mutual funds transaction, except units of UTI were to be registered and regulated.

The SEBI Mutual Fund Regulations 1993 were substituted by a more comprehensive and extensively revised Mutual Fund Regulations in 1996. The mutual funds industry now works under the SEBI (Mutual Fund) Regulations 1996.

In February 2003, following the repeal of the Unit Trust of India Act 1963, the UTI was bifurcated into two separate companies. One of which is the Specified Undertaking of the Unit Trust. The Specified Undertaking of Unit Trust of India, functioning under an administrative officer and under the regulations framed by Government of India. The second entity is the UTI Mutual Fund, sponsored collectively by State Bank of India, Punjab National Bank, Bank of Baroda and LIC.

KEY TERMS IN MUTUAL FUNDS:

1. Net asset value or NAV

Net Asset Value is the market value of the assets of the scheme minus its liabilities. Per unit NAV is the net asset value of the scheme divided by the number of units outstanding on the Valuation Date. A mutual fund's net asset value or NAV is the current market value of a fund's holdings minus the fund's liabilities (i.e. "net assets"). It is usually expressed as a per-share amount, computed by dividing by the number of fund shares outstanding. Funds must compute their net asset value every day the New York Stock Exchange is open.

2. Sale Price

It is the price of mutual funds you pay when you invest in a scheme. It is also called Offer Price of the mutual funds.

3. Purchase Price

It is the price of mutual fund at which units (MFs) under open-ended schemes are repurchased by the Mutual Fund sponsor or company.

4. Redemption Price

It is the price at which close-ended mutual fund schemes redeem their units on the maturity date.

5. Sales Load

Sales load is a charge collected by a mutual fund scheme when it sells the units to the investors. It is also called as; 'Front-end' load. The mutual fund schemes that do not charge any type of load are called 'No Load' schemes.

6. Repurchase or 'Back-end' Load

It is a charge collected by a mutual fund scheme when it goes to buys back the MF units from the unit holders or the investors.

7. Turnover

It is a measure of the volume of a mutual fund's trading in securities. Turnover is expressed as the percentage of NAV and is generally annualized. Turnover is equals to the less of a fund's purchases or sales during a specific period which is not more than one year which divided by average net assets. If the specific period is less than one year, the turnover amount is annualized.

8. Expense ratio

The expense ratio permits scheme investor to compare relative expenses on the funds. The expense ratio is sometimes called as the total expense ratio.

9. Returns

As an investor, every one wants to know the returns from a fund over a specific period of time. Return of a mutual fund is the rate of gain or loss in its face value over the time of holding. Generally it is expressed as the one, three, five, and ten year, year to date, and since the starting of the mutual fund scheme. Return is the common measurement of performance. The investor can use the return rate to evaluate and compare mutual funds efficiency.

10. Mutual Funds Prospectus

The prospectus is a legal document; which includes whole information about the mutual fund scheme. In the prospectus an investor could get information about the terms of the mutual fund offer, the issuing company, and objectives of the scheme. The prospectus is provided to help investor to make an informed investment decision before he invest in a mutual fund scheme.

11. Mutual Funds Annual Report

Every year mutual funds send it's each investor an Annual Report. The Annual Report includes all the financial statements of fund, a list of the fund's securities & portfolio, and explanations of the fund's management about how it had worked..

MOST POPULAR TYPES OF MUTUAL FUNDS:

1. Open Ended Mutual Fund:

It is the scheme of collective investment which could issue and redeem shares at any time preferred by the investor. An investor generally purchases the shares in the mutual fund scheme directly from the fund (sponsor) itself rather than from the existing scheme holders or shareholders.

2. Open Ended Mutual Fund:

It is also the scheme of collective investment which has a limited number of shares. It is known as a closed-end fund because fresh & new shares are very rarely issued. Once the mutual fund has launched the shares are not generally redeemed for cash or securities till to the time of liquidation of fund.

3. Interval Scheme Mutual Fund:

A mutual fund which has the combination of the features of an open-ended and the closed-ended fund schemes, making the fund scheme open for sale or redemption during pre-determined intervals as the will of investors. In other words, it is a mutual fund scheme with redemption characteristics in between features of closed-end and open-end fund schemes. The mutual fund units may be sold or purchased on the stock markets or may be open for sale or redemption during pre-determined intervals at Net Asset Value related prices.

4. Growth Scheme Mutual Fund:

Growth Scheme mutual funds are also known as equity scheme funds. The main object of these fund schemes is to make available capital appreciation over a short term to long term period. These fund schemes normally invests a major part of their funds, money in equities & securities and they are willing to bear short term decrease in Net Asset value for expected future appreciation.

5. Income scheme Mutual Fund:

The main object of income fund scheme is to provide regular and stable income to its investors. Such fund schemes normally invest their money in fixed income long tern securities such as bonds, debentures, Govt. securities and money market financial instruments. Due to this, income funds are less risky as compared to other fund schemes.

6. Tax saving scheme Mutual Fund:

These fund schemes regularly offer a tax rebates to its investors under specific exemption provisions of the Income Tax Act. As the Govt. gives tax incentives to invest money in specific sectors. e.g. Equity Linked Savings Schemes (ELSS). Some pension schemes launched by the mutual fund companies also offer tax benefits to the investors. These fund schemes are growth oriented and invest in equities.

CONCLUSION:

Every mutual fund has a specific goal - either growing its net assets i.e. capital gains and generating income or dividends for its large investors. Distributions in the form of short term and long term capital gains and dividends may be paid to shareholders (investors) as income or will be reinvested to purchase more securities.

Like any other business, mutual funds also have risks and costs concerned with the returns. As an investor, the risks of a mutual fund and the expenses incurred for the fund's operation directly impact on the returns of an investor.