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BASICS OF MUTUAL FUNDS

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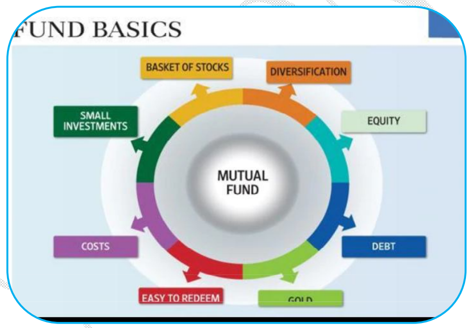
ABSTRACT:

In the present Scenario of investment, mutual fund is most buzzing and suitable investment avenue for the common & small investors. It provides an opportunity to them to invest even a small amount of money. It pools the money of investors and invest into Capital market Instruments. Mutual fund is very attractive option to new investors as it is widely diversified and easily liquid. But still an important fraction of people is not aware and have not much knowledge about mutual fund (Binod Kumar Singh, 2012 and Ankit Goel & Rajendra K. Khatik, 2017). This paper is based on secondary data and the objective of this paper is to give a general view about mutual fund, its schemes, types, ways & mode of investment and also suggest best performing mutual fund in small cap, mid cap, multi cap and large cap category of equity to invest in.



KEYWORDS: *Mutual fund, Instruments, diversification, schemes.*

INTRODUCTION

Mutual fund is an investment company that pool the money of investors to invest into diversified financial instruments (called as portfolio of securities) such as stock, cash, bond, short term instruments and similar assets or combination of these which is managed by registered investment adviser. Mutual fund provides an opportunity to small investors or laymen who want to invest in stock market but don't have much knowledge can invest even the small amount of money either directly or through the help of professional mangers. The investment professionals after charging their fees distributed the earning of mutual fund among investors according to their proportion of amount invested. Moreover, Mutual fund is regulated and governed by Securities and Exchange Board of India (SEBI) so it is very safe for investors to invest in mutual fund. SEBI inspects mutual fund every year and issues guidelines from time to time to effectively manage mutual funds.

Investors can buy or sell their securities from mutual fund at market price which is NAV (net asset value). NAV is calculated every day after the market close. It is calculated as:

$$\text{NAV} = \frac{\text{Assets - Liabilities}}{\text{No. of outstanding units}}$$

- Assets: Total value of securities in Portfolio +Liquid Assets + accrued incomes.
- Liabilities: Short term & Long term Liabilities + Accrued Expenses + Outstanding expenses.

To buy and sell mutual fund scheme, the NAV of that particular day is considered. As NAV is based on market price of securities which change every day so NAV also varies on day to day basis.

- Buy Mutual Fund (unit holder pay) = NAV + Sale Front End load
- Sale Mutual Fund (Fund will pay) = NAV – Back End load.

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Types / Schemes of Mutual Fund:

The mutual fund schemes are broadly classified into following categories:

A. By Structure:

- **Open-Ended Scheme:**

In open ended scheme investors can conveniently buy or redeem their units at any time from fund house at prevalent NAV prices. There is no fixed maturity period of open ended scheme so its offer liquidity.

- **Close- Ended Scheme:**

Close Ended mutual fund schemes have fixed maturity period. New units are offered only for a specified period. Investors can buy units from the stock exchange. In this scheme units are bought and sell at market price determined by demand and supply forces. The trade is at Discount or Premium to NAV.

Premium = Market price > NAV
Discount = Market price < NAV.

- **Interval Scheme:**

It is the combination of both above Units. It opens for pre defined period and after that it works as close ended scheme.

B. By Investment Objective:

By Investment objective mutual fund scheme is broadly classified into following categories:

1. Income Fund:

As the name suggest, these funds provide regular income to their investors. These funds are mainly invested in fixed income securities such as government bonds, corporate bonds etc. Generally the investors who are conservative in nature and curious for returns invested in income funds.

2. Growth Fund:

Capital appreciation is the main aim of growth funds. It provides high return at high risk. These funds are invested in growth oriented securities.

3. Liquid Fund:

Liquid funds are invested in short term instruments like Treasury bill, certificates of deposits, commercial papers etc. for short period of time, which provides average return at low risk.

4. Pension Fund:

Pension fund is a long term investment scheme. That investor who wants regular income after he retires usually invested in pension fund scheme. Here the investment is made both in equity and debt instruments.

5. Tax saving:

Tax saving funds is those funds which come under section 80C of Income Tax Act where the deduction of Rs. 1.5 lakhs is allowed on investment. These funds are mainly invested in equity funds so investment is made for long period and fund is locked for 3 years. That's why Tax saving fund also known as Equity linked saving scheme.

C. By Asset Type:

1. Stock Fund:

The Investment is made in equity stock of companies. It is a long term investment having an objective of capital growth/appreciation. Stock funds are risky but it yield high returns. Equity funds are classify into different categories such as Small cap, mid cap, large cap ,multi cap, thematic fund, diversified equity index, value fund etc.

2. Debt Fund:

Debt fund is a safer investment as money is invested in fixed income securities which yield low return at low risk. Debt fund generates current income to its investors. This fund has many types like ultra short term debt, long term debt, gilt long term, gilt short term, floating rate debt etc.

3. Hybrid Fund:

It is spread between Debt and Equity funds. It provides safety, income and capital appreciation. Hybrid fund also known as balanced fund as investment is made by investing in debt and equity in certain proportion. It gives moderate returns at moderate risk. Conservative balanced fund, equity oriented hybrid specialty, funds of fund hybrid oriented, etc. are the examples of balanced fund.

INVESTMENT HORIZON	
SCHEMES	IODS
DEBT FUND	Less than 3 years (>3 yrs.)
BALANCED FUND	3 to 5 Years
LARGE CAP FUND	5 to 7 years

Large Cap	Fund that invest in blue chip firms
Mid Cap	Investment made in mid size companies.
Small Cap	Investment made in small size companies.
Multi Cap	Fund Invest in combination of large, mid and small companies.

Hence, a mutual fund offers a wide range of options to investors, out of which some belongs to same category. So, it is very difficult to them to evaluate all the options available and to take informed decision. By taking into consider the investors difficulties, SEBI has issued a circular to categorization and rationalization of mutual fund schemes on 6 October, 2017 to standardize the scheme categories and characteristics of each category. As per SEBI circular, types of schemes are broadly classified into 5 groups:

- Equity Schemes
- Debt Schemes
- Hybrid Schemes
- Solution Oriented Schemes
- Other Schemes

Further, the SEBI circular also sub – categorize the above five groups. The equity schemes has categorized into 10 schemes, debt into 16, Hybrid into 6, solution oriented schemes into 2 and other schemes also in 2 categories.

SEBI has also defined the large cap, mid cap and small cap scheme:

- Large Cap: 1^{st} – 100^{th} companies in terms of full market capitalization
- Mid Cap: 101^{st} – 250^{th} companies in terms of full market capitalization.
- Small Cap: 251^{st} companies onwards in terms of full market capitalization.

Way to Invest:

Investment in mutual fund is very easy. But before investing in mutual fund KYC (know your customer) compliance is mandatory.

- KYC is a process of verification of the identity of investors before investing. It can be done either online or offline. SEBI has made it compulsory and issued guidelines to provide precautions against illegal activities like corruption and money laundering under Prevention of Money Laundering Act 2002.

There are two ways to invest in mutual fund i.e. Online and Offline. If the investor has no knowledge about mutual fund concepts and its investment, then go offline is more preferable. Online way is suitable when investor has information of mutual fund and can manage his investment on his own.

1. Offline: Investors invest offline in two ways - Direct and through intermediaries.

- **Direct:**

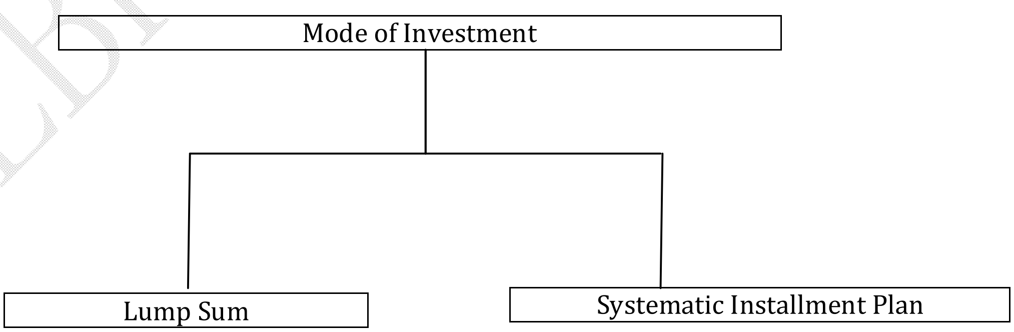
Download the application form from any fund house website. Fill the necessary details and submit it along with necessary documents in nearby fund house. Proof of address, proof of identity, cheque, and passport size photograph are the needed documents. When investor invests directly without the help of intermediaries it is known as **Direct Plan.**

- **Through Intermediaries:**

There is no. of intermediaries available like Banks, stock brokers, financial advisory companies, agents and distributors. They help the investors in entire process of investment in mutual fund. For this they charge fees/ commissions from investors. When investors buy a mutual fund through an intermediary it is also known as **Regular Plan.**

2. Online:

It is very easy, simple and most preferable method of investment. Investors can invest through the websites of Banks or AMCs by filling E- KYC. Investor has to fill the relevant details and get user ID and password. Then he login his account and start investing as per his investment scheme. Nowadays there are various investment applications available like Groww, Kuvera, myway, etc. that make investment easy and direct.



- **Lump sum:**

Lump sum is a mode of investment in which investor invests the Whole money in single/one go or when the entire amount is invested at a time it is called as lump sum method. For instance, Robin wants to invest 1, 00,000 rupees and he invested the whole amount at one go, it refers to as lump sum investment.

- **Systematic Installment Plan (SIP):**

It is most convenient and systematic way to invest amount in mutual fund. When the investor invests the money in installment rather than one time investment, it refers to as systematic installment plan. In SIP investor invests the definite amount of money for definite period of time.

Both (Lump sum and SIP) are the method of investment in mutual fund. There is no fair comparison between the two. Lump sum is suitable when the investor has money in hand or has income in irregular form like business people. It provides the benefit of compounding. Whereas, SIP is suitable for those people who get a monthly income or who can invest the money in disciplined manner at regular interval. SIP gives the advantage of rupee cost averaging.

Points to Remember/ considered before investing:

- Identify the goal – It is the first and most important point that the investor has to identify the purpose or a goal for which he wants to invest.
- Time Period – The next point is the time period. Investor has to know for how much period he has to invest says one year, five years or ten years.
- Risk – Mutual fund is not free from risk but it can be diversified. So the investor should consider his risk tolerance power before investing.
- Documents – Investor has to read the offer documents and each & every details about mutual fund carefully says, the difference between the types, way of investment and any other relevant information regarding mutual fund. The two important documents of fund are prospectus and shareholder reports.
- Schemes/ Investment Style – Select that mutual fund types and schemes which complete the future money needs of investor. Make a list of few mutual fund types that suits the investor and get checked thoroughly each of mutual fund schemes, type, style, etc. and consider investing in more than one mutual fund to diversify the portfolio.
- Expenses, fees and loads – Check the expenses and fees charging by mutual fund for offering services like manager fees, commission, brokerage, advertisement expenses, etc. Compare the fees, expense ratio on different mutual fund schemes. The expense ratio should be low because lower the expense ratios better the scheme. And also find out the entry and exit loads on that mutual fund.
- Past Performance of fund – Track the record and evaluate the past performance of fund. Past performance is not the true indicator or give guarantee about future performance but it gives a rough idea and helps to assess the fluctuation in fund over the period of time.
- Experience of Fund Manager – It is very essential to know about the fund manager. Check the background of the fund manager, his experience, what types of the fund he is managing, what is the performance of his funds, etc.
- After matching the investor's objective with the objective of fund house, he can start invested but he should keep track the market conditions, investment performance and keep himself up to date.

Review of Literature:

- Shalini Goyal and Dauly Bansal (2013) in their research paper titled " A Study of Mutual Fund In India" has focused on entire journey of mutual fund industry in India and predict the future for investors in long run and compare the different types of mutual fund in India. The study reveals that due to liberalization policies Indian economy is likely to return to high grow path in few years and equity funds outperform income funds.

- Binod Kumar Singh (2012) in his paper," A Study on Investor 's attitude towards mutual funds as an investment option" has analyzed and study the impact of various demographic factors on investors attitude towards mutual fund and factors responsible for selection of fund. His study shows that most of respondents are still confused about the mutual funds and have not formed any attitude towards the mutual fund for investment purpose. The paper concludes that most of respondents having lack of awareness about various functions of mutual fund and demographic factors like income, education have influence investor's attitude.
- Gauri Prabhu, in her paper titled as "A Study of Factor that affect the selection of Mutual fund schemes by Individual investors with reference to Pune City" has studied out factor affecting investment decision of mutual fund and preference of investors to particular scheme of mutual fund. Her findings help mutual fund companies to identify the parameters which influence the investment decision of common investors.
- Ankit Goel and Rajendra K. Khatik (2017) in their research paper," A Study on Investor's awareness and preference towards mutual fund as an investment option". Their finding show that majority of investors have heard about mutual fund but still an important fraction of them have not initiated to investment because of having lacking in full knowledge of mutual fund.

Objectives:

- To know about concept of mutual fund and NAV.
- To understand the various schemes of mutual fund in India.
- To Study the method of Investment in Mutual Fund.
- To know about Lump sum and SIP.

Sources of Data Collection:

The study has been made from secondary source. The data is collected from journals, research papers, book and internet. Search has also been made from various websites viz. moneycontrol.com, the economics times, investopedia etc.

Finding:

- Mutual fund is better investment avenue for common persons that allow the laymen to access the diversified portfolio of securities.
- Direct plans generate higher return than regular plans in very long period as direct plans have lower expense ratio than regular plans.
- Debt fund is more suitable for short period of investment as it has low risk and higher return than bank deposits.
- Systematic Installment Plan is better way to invest for long period of time and for beginners.
- For new investors, large cap fund is better option for investment.

Best Mutual Fund Scheme:

There are many mutual fund schemes in India. Investors invest in as per their goal. But the below mentioned mutual fund schemes are from large cap, mid cap, Small cap and Multi cap category that performing best and yield better return. The following funds are selected after doing research from various websites and from the lectures of experts and investors. Here are these mutual fund schemes to invest in:

1. Multi Cap Category:

- Mirae Asset India Equity Fund:

It is a multi cap equity scheme that attains growth in long term period. It is holding 1st Rank by CRISIL Rating for its performance on 31st December, 2018. The trailing return and other details are given below:

- NAV as on 5th April, 2019 - 51.103 Rs.
- Inception – 4 April, 2008
- Asset under management – 11,893 Crore as on 31/3/19
- Benchmark – S&P BSE 200 TRI
- Expense Ratio – 1.96%
- Fund Manager – Neelesh Surana (10-3-2008)
  Harshad Borawake (1-5-2017)
  Gaurav Mishra (31-1-2019)
- Minimum Sip – 1000 Rs.

Trailing Return % as on 12/4/19	1year	3 year	5 year	Since Inception
Total Return %	10.22	18.02	17.94	15.98
Benchmark	8.34	16.12	14.05	

(Source: www.valueresearchonline.com)

2. Large cap category:

- **Reliance large cap fund:**

Reliance top 200 has been renamed as Reliance Large Cap Fund on 28 April, 2018. Large cap equity fund is for the investors who are conservative in nature and not ready to take high risk. Large cap fund does not much affected by frequent fluctuation of stock market. Reliance large cap scheme provide good return to long term investors and stood at 1st Rank by CRISIL Rating on 31st December, 2018. Some details of Reliance Large cap fund are following:

- NAV on 5th April, 2019 – 35.47 Rs.
- Launch Date – 8 august, 2007
- Asset under Management – 12,768 Crore as on 31/3/2019
- Benchmark – S&P BSE 100 index.
- Expense Ratio – 2.22%
- Fund Manager – Sailesh Raj Bhan (August, 2007)

Kinjal Desai (25 May, 2018)

Trailing Return %	1 year	3 years	5 years	Return Since Inception
Fund	11.20	17.26	16.84	11.48
Benchmark	10.32	16.32	13.23	

(Source: www.morningstar.in & www.valueresearchonline.com)
(As on: 12 April, 2019)

Mid Cap Category:

- **L&T mid cap fund:**

L&T midcap is an open ended equity scheme. It is prefer by those investors who want higher growth and high risk as compared to large cap funds. It shows consistent performance and beats its benchmark. The basic information of L&T mid cap fund is mentioned below:

- NAV – 135.51 Rs. On 5 April, 2019
- Inception – 9 august, 2004

- Benchmark – Nifty Midcap 100 TRI index
- AUM – 4,390 Crore Rs. as on 31-3-2019
- Expense Ratio – 2.13%
- Minimum SIP – 500 Rs.
- Fund Manager – S.N. Lahiri (22 June, 2013)

Vihang Naik (28 June, 2016)

Trailing Return% as on 12/4/2019	1 year	3 year	5 year	Return since Inception
Fund	-6.58	17.04	21.73	19.39
Benchmark	-6.14	13.72	17.34	

(Source: www.valueresearchonline.com)
(www.fundsindia.com)

Small Cap Category:

- **HDFC Small Cap fund:**

It is one of the best and top performing mutual funds in Small cap schemes. It is at No.1 rank by CRISIL, for quarter ended 31 December, 2018. Small cap scheme yield better result in long run. Following are the details of this fund:

- NAV – 44.38 Rs. as on 6 April, 2019
- Launch Date – 3 April, 2008
- Asset under Management – 7,544 Crore Rs. as on 31-3-2019
- Expense Ratio – 2.12%
- Benchmark – Nifty Small Cap 100
- Minimum SIP – 1000 Rs.
- Fund Manager – Chirag Setalvad (30/6/2000)

Trailing Return % as on 12 April,2019	1 year	3 year	5 year	Return since Inception
Fund	-3.95	19.58	19.5	14.44
S&P BSE small cap	-15.57	12.33	15.83	

(Source: www.valueresearchonline.com)

CONCLUSION:

Mutual fund is a great investment option. It is attractive, simple and easy way to earn money by investing in instruments of capital market. There is large amount of fund available with different objectives and schemes. Each mutual fund has a specified objective which may cater the needs and objectives of every investor. There are many best performing mutual funds but the above mentioned mutual funds performed better and give consistent return in long run. These funds show their capacity by giving excellent returns in past years. These funds are coming in top 50 mutual fund schemes and mostly recommended by the experts and mutual fund investors to fulfill their goal. So, these funds are among the best mutual funds to invest in and the investors can select as per their objectives and requirements.

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