ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2015; 1(12): 947-950
www.allresearchjournal.com
Received: 17-09-2015
Accepted: 19-10-2015

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Risk & return analysis towards mutual fund scheme assets financial service in Chennai

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Abstract
The Mutual funds Industry is one of the fast growing sectors in India since the initiation of economic reforms in 1991. The rapid growth of Mutual Funds has compelled the researchers to take a deeper look into the performance of Mutual Funds, taking into account the expectations of investors, ability of fund Managers and market timings of the Portfolio Managers. This would enable investors to assess how much returns has been generated by Portfolio Managers and what risk level was assumed in generating such funds. The present study analysed the risk and return relationship of Indian Mutual Fund Schemes (Dividend Option). The study found out that out of thirty five sample schemes, eleven showed significant t–values and all other twenty four sample schemes did not prove significant relationship between the risk and return. According to t-alpha values, majority (thirty two) of the sample schemes' returns were not significantly different from their market returns and very few number of sample schemes' returns were significantly different from their market returns during the study period.

Keywords: Risk & Return, Mutual Fund Scheme, Financial Service, Chennai

Introduction

A mutual fund is an investment company that pools investor’s money to invest in stocks and/or bonds. An investor buys shares in the fund. The fund buys stocks and/or bonds with that money. There are open-end funds. Closed-end funds or CEFs, and exchange-traded funds or ETFs. Mutual funds are liquid (can be bought and sold at any time) offer investors an easy and economical way to invest (low investment minimums) and provide instant diversification and professional management (managed funds). Many mutual funds pay dividends that can be reinvested in additional fund shares (except for ETFs) at no cost.

A mutual fund is a type of professionally managed collective investment vehicle that pools money from many investors to purchase securities. While there is no legal definition the term “mutual fund” it is most commonly applied only to those collective investment vehicles that are regulated and sold to the general public. They are sometimes referred to as “investment companies” or “registered investment companies” most mutual funds are “open ended” meaning investors can buy or sell shares of the fund at the time. Hedge funds are not considered a type of mutual fund. Investors in a mutual fund pay the fund’s expenses, which reduce the fund’s returns/performance. There is controversy about level of these expenses. A single mutual fund may give investors a choice of different combinations of expenses (which may include sales commissions or loads) by offering several different types of share classes.

Mutual funds pass taxable income on to their investors by paying out dividends and capital gains at least annually. The characterization of that income is unchanged as it passes through to the shareholders. For example, mutual fund distributions of dividend income are reported as dividend income by the investor. There is an exception; net losses incurred by a mutual fund are not distributed or passed through to fund investors but are retained by the fund to be able to offset future gains.

Mutual funds may invest in many kinds of securities. The types of securities that a particular fund may invest in are set forth in the fund’s prospectus, which describes the fund’s investment objective, investment approach and permitted investments.

The investment objective describes the type of income that the fund seeks. For example, a "capital appreciation" fund generally looks to earn most of its returns from increases in the prices of the securities it holds, rather than from dividend or interest income. The investment approach describes the criteria that the fund manager uses to select investments for the fund.
A mutual fund's investment portfolio is continually monitored by the fund's portfolio manager or managers.

Scope & Objectives
- The factor influencing investors to invest in mutual fund
- Identify the different types of risk and return in the mutual fund
- Awareness level of mutual fund
- Mutual fund schemes on risk and returns
- Preferences of investors to continue mutual fund.

Profile of Assets Financial Service
The most important trend in mutual fund industry is the aggressive expansion of the foreign owned mutual fund companies and the decline of the companies floated by nationalized banks and smaller private sector players. many nationalized banks got into the mutual funds business in the early 90's and got off to a good start due to the stock market boom prevailing them then. These banks did not really understand the mutual fund business and they just viewed it as another kind of banking activity. Few hired specialized staff and generally chose to transfer staff from the parent organization. The performance of the most of the schemes floated by these funds was not good. Some schemes had offered guaranteed returns and their parent organizations had to bail out these AMC's by paying large amount of money as the difference between the guaranteed and actual returns.
The service levels were also very bad. Most of these AMC's by paying large amount of money as the difference between the guaranteed and actual returns. The service levels were also very bad. Most of these AMC's have not been able to retain stuff, float new schemes and it is doubtful whether, barring a few exceptions, they have serious plans of continuing at the activity in a major way.
The foreign owned companies have deep pocket and have come in here with the exception of long haul. They can be credited with introducing many new practices such as new product innovation, sharp improvement in service standard and disclosures, usage of technology, broker education and support etc.
In fact, they have forced in industry to upgrade itself and service levels of organisations like UTI have improved dramatically in the last few years in the response to the competition provided by this.
The securities industry was exceptionally active in 1992 and the first half of 1993 with record volumes of new debt and equity issues, secondary market trading, mutual asset growth and venture capital investment but the securities industry remains volatile, and changes in interest rates or returns on investment could adversely affect securities firms, mutual funds and venture capitalists in 1994.
The mutual fund industry continued its impressive growth in 1993 and surged to new records in terms of total assets, number of funds and shareholder accounts. Assets climbed to a record high, reflecting a large inflow on new money and higher prices of the underlying securities. Continued popularity is foreseen for an industry whose assets exceeded $1.8 trillion in 1993.
Booming initial public offerings led the venture capital industry out of four-year slump in 1992 and continued into mid-1993. In 1992, venture capitalists took a record 151 companies public raising a record $4.42 billion. Public pension funds seeking higher returns in a low interest rate environment stepped into the venture capital arena in 1993.

Securities Firms
The securities markets were exceptionally active in 1992 and the first half of 1993. Driven primarily by declining interest rates, volume in most component businesses was at record or near-record levels, with pre-tax income for the industry of $9.1 billion setting a record for the second year. The pre-tax return on equity capital of 22 percent was about equal to its historical average. Interest rates, short-term and long-term, dropped substantially during 1992 and the first half of 1993. The result in 1992 was a record volume new debt and equity issues for the second years.
More than $700 billion of new investment grade debt was issued 1992, with another $440 billion offered in the first six months of 1993. While investment-grade debt generally represents the largest dollar amount of offerings, substantial fees typically are also earned form high –yield bonds and equities. These latter instruments generate larger fees per dollar of issue sold, as they are more volatile and require more sales effort. While investment –grade debt might earn 50 cents in revenues for every $100 of issue value, comparable revenues for high-yield bonds might be $2 and for stocks $6.
The $42.8 billion in new offerings of high-yield bonds in 1992 was an annual high, while the $30 billion of new offerings in the first-half of 1993 also is a record. Unlike the high-yield boom of the late 1980's, this debt isn't being used to finance acquisitions or leveraged buyouts. Instead, it represents efforts by corporations without an investment grade rating to refinance higher yielding callable debt, or to substitute bonds for more expensive bank financing. Individual investors are a major supplier of these moneys, through their purchases of mutual funds. Net purchases of high-yield mutual funds almost doubled in 1992 to $11.1 billion, as investors accepted higher risk in an effort to maintain yields.

Proposed Analysis and Interpretation
Analysis of data in general way involves a number of closely related operation the performed with the purpose of summarizing the collected data and organising them in such manner that the answers the research question. Percentage analysis this method is used for comparing certain feature. The collected data represented in the form of tables and graphs in order to give effective visualization of comparison mode.

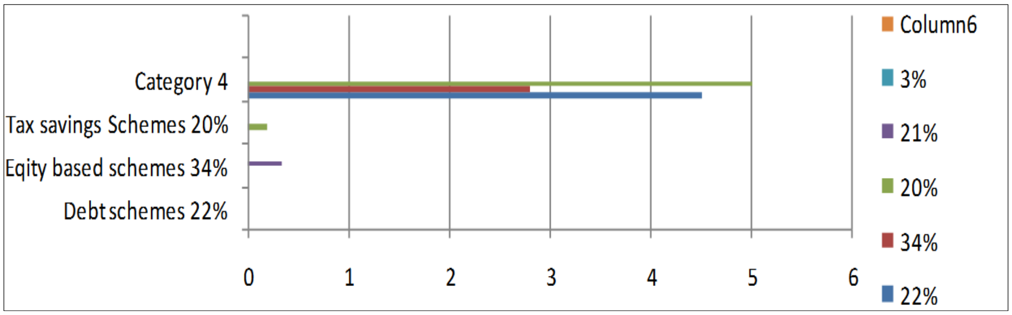


Fig1: Types of Mutual Fund

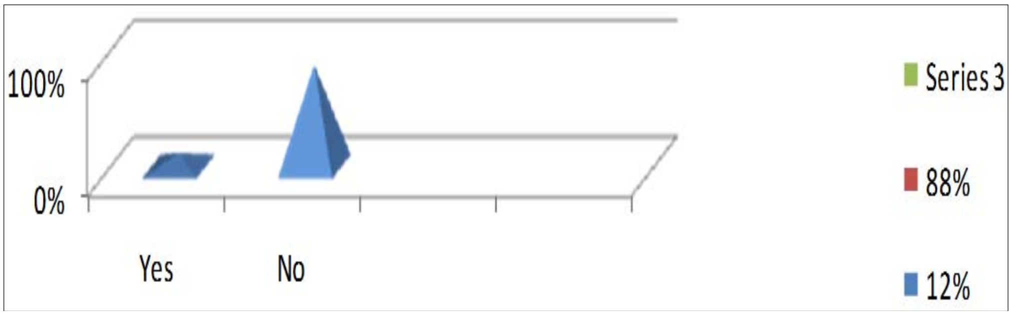


Fig 2: Mutual fund is risky one

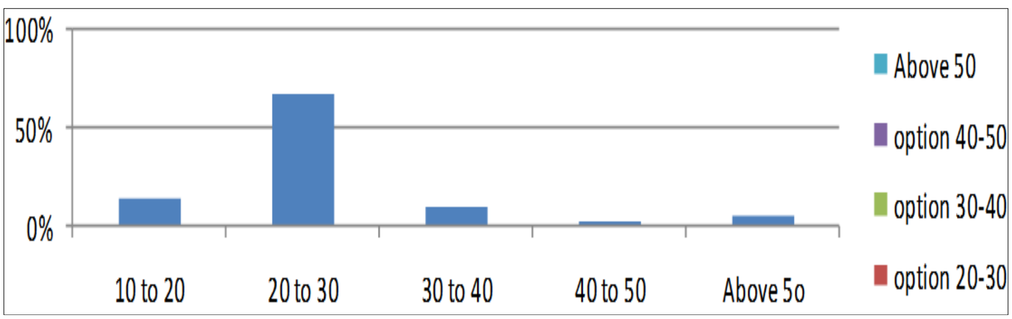
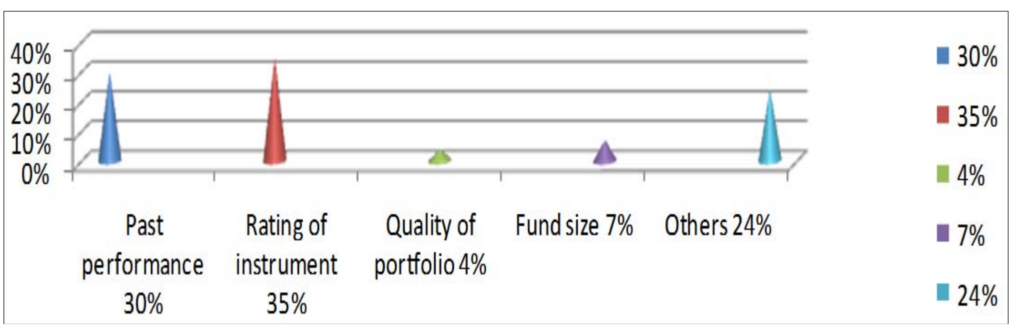


Fig 3: Expected return



(**Sources:** primary data)

Fig 4: Considering while investing in mutual fund

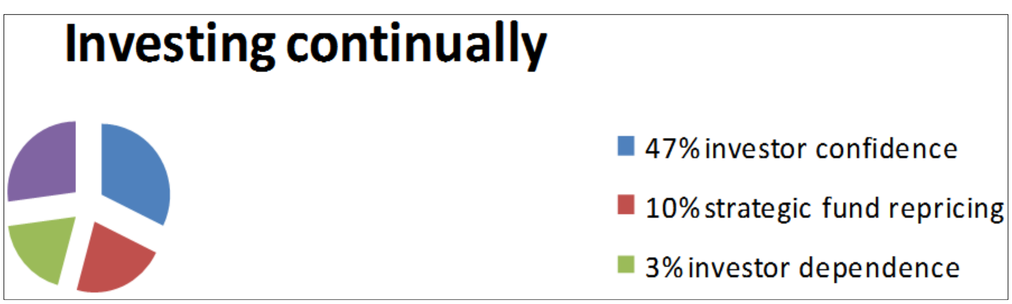


Fig 5: Investing continually

One sample Run Test

Aim: To find aware about the mutual funds and their operations

Hypothesis

- **Null Hypothesis (Ho)**
  There is awareness of mutual funds and their oernrations.
- **Alternative Hypothesis (H1)**
  There is not awareness about mutual funds and their operations.

r= 11 n1=94=Yes n2=6=No

$$\mu_r = \frac{2(n1)(n2)}{n1 + n2} + 1 = \frac{2\ (94)\ (6)}{94 + 6} + 1$$

$$= 12.28$$

$$\sigma_r = \frac{2n1\ n2\ (2n1\ n2 - n1 - n2)}{(n1+n2)2\ (n1+n2-1)}$$

$$\sigma_r = \frac{2\ (2x94x6-94)\ (94-6)}{(94+6)2\ (94+6-1)} = 1.082$$

$$IZI = \frac{r - \mu_r}{\sigma_r}$$

$$= \frac{11 - 12.28}{1.082} = \frac{-1.28}{1.082} = -1.182$$

Z= 1.96
Z table @ 0.05 LOS
Z tab = 1.96
Cal Z =1.182 < Tab Z= 1.96

Result

So, we accept that, there is awareness about mutual funds and their operations.

Conclusion

The investors concrete on high return with low risk so the organization cans invest or allocate the fund according to the investor's requirements. So the investors will increase their investment in the organization.

When professionals are taking care of your money important is selection of mutual fund which would help in achieving your investment objective successfully. Mutual funds are working on behalf of its investors with investment of high return and minimum risk. Selection of a mutual fund is very important for investors. So the investor has to take risk and meet challenges to invest to get better income in future.

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