Risk Perspective in Mutual Fund – A comparative Study on Debt and Equity Fund With Special Reference to Indian Capital Market

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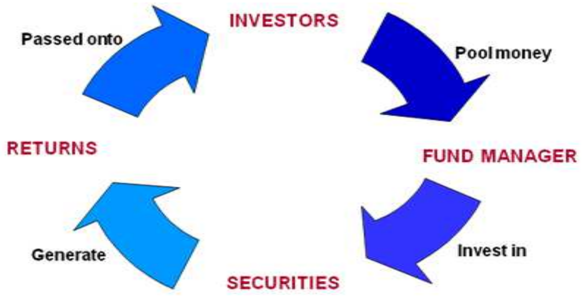
I.Introduction

A mutual fund is a single, large professionally managed investment organization that combines the funds of many individual investors having similar investment objectives. It designs its schemes to meet the needs of different types of investors in terms of nature of investments, dividend distributions, and liquidity, etc. The entire income/profits are distributed among the investors in proportion to their investment. However, expenses for managing the fund are charged to the fund. Mutual fund activity has come to play an important role in our developing economy.

This paper mainly focus on value addition to the fund managers in terms of the forecasting of risk vs return and enable the fund managers to improve the performance of these selected debt, equity and hybrid funds.It also focuses on critical evaluation of selected top mutual fund's debt , equity and hybrid schemes during the last five years and it also analyses the risk factor involved in the decision making process of investors and helps the investors to select best fund

A.Glimpse of Mutual Fund Industry

Mutual Fund operation flow chart



B.Objectives :

1) To create value addition to the fund managers in terms of the forecasting of risk vs return and enable the fund managers to improve the performance of these selected debt, equity and hybrid funds.

2) To critically evaluate selected top mutual fund's debt , equity and hybrid schemes during the last five years and to analyze the risk factor involved in the decision making process of investors and helps the investors to select best fund .

3) To identify the process of fund mobilization of the entire mutual fund industry

4) To Compare the Private Sector Vs Public Sector's Contribution to the Mutual Fund Industry

C. Literature Review

Hossein and Svetlana (2008) tested the efficient market hypothesis for different market capitalization and investment styles of mutual funds. The results of the study for the period 1994-2007 indicated that small cap funds provided the highest risk-adjusted return for the entire period, while growth funds exhibited lower returns. The authors found that the mutual fund market is not always efficient, which makes it possible for an investor or a mutual fund manger to earn excess return on a risk-adjusted basis.

Mukhopadhyay and Veena (2009) examined whether mutual funds could actually impart more value than the stock market and protect the interest of the investors during the downturn. It was found that during the sharp downturn, the schemes not only gave negative returns but also underperformed the index.

Kavitha and Shefali (2009) evaluated the performance of 16 equity-linked schemes using risk and return and compared their performance with the benchmark S&P CNX Nifty. It was found that a majority of the investors were aware of mutual funds, and its risk and return proportion.

Zakri (2009) examined five factors, namely, default risk premium, term premium, monetary conditions, federal fund premium, and market risk premium. The author confirmed that mutual fund returns can be strongly predicted by analyzing these factors.

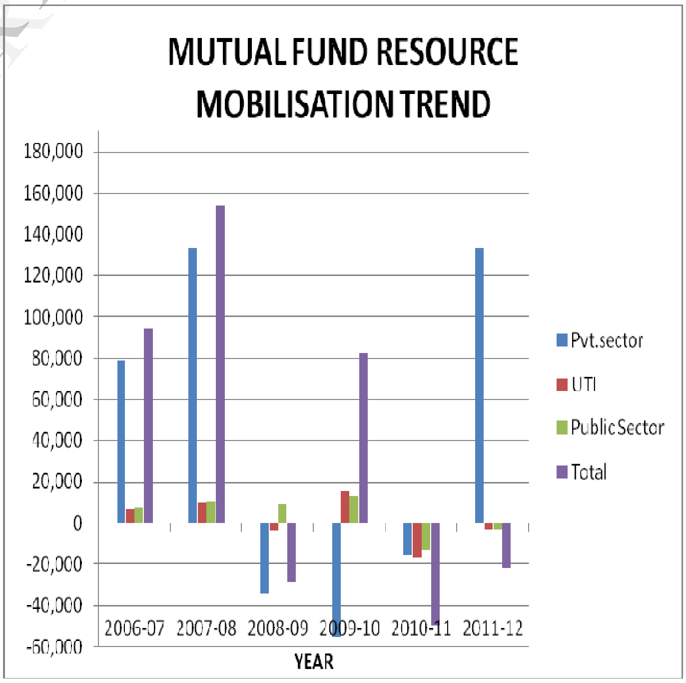
Paulo Armada Leite, Maria Ceu Cortez, (2009) estimated and compared the performance of Portuguese-based mutual funds that invest in the domestic market and in the European market using unconditional and conditional models of performance evaluation. The results suggest that mutual fund managers are not able to outperform the market, presenting negative or neutral performance.

The studies of Aymen Karoui, Iwan Meier,(2009) on the performance and portfolio characteristics of 828 newly launched US equity mutual funds over the period 1991-2005. These funds initially earn, on average, higher excess returns and higher abnormal returns. Their risk-adjusted performance is also superior to existing funds. Furthermore, they provide evidence for short-term persistence among topperforming fund starts, however, a substantial fraction of funds drop from the top to the bottom decile over two subsequent periods. Analyzing portfolio characteristics, further they found that returns of funds starts exhibit higher ratios of unsystematic to total risk. Portfolios of new funds are typically also less diversified in terms of number of stocks and industry concentration and are invested in smaller and less liquid stocks.

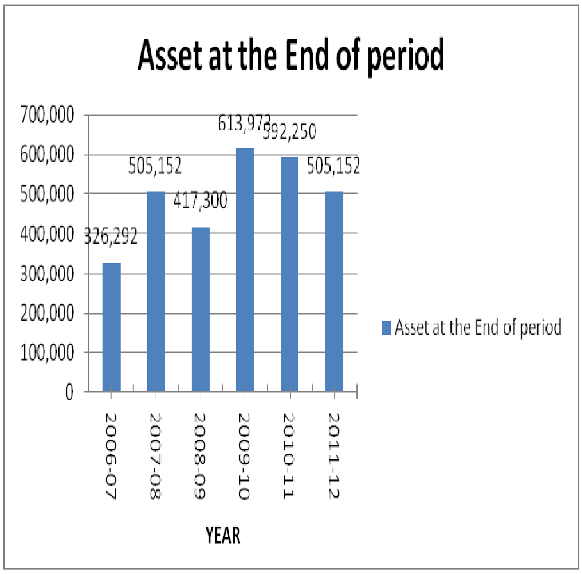
N S Santhi and K Balanaga Gurunathen 2012 evaluated the risk-adjusted performance of tax-saving mutual funds in India by analyzing the risk and return of the funds in various periods and comparing them to those of the benchmark index. Examining the fund volatility, it is found that the highest volatility is observed in 2008-09. Risk-adjusted performance is measured by Sharpe, Treynor and alpha ratio. From these measures it is found that in 2008-09, there were certain schemes which underperformed the benchmark index that showed a strong negative risk-return relation, while there were other schemes that outperformed the benchmark index with positive risk-return relation.

D. Data Analysis and Interpretation:

Trends in Resource Mobilisation by Mutual Funds					
Net Inflow / Outflow (Rs. Crore)					
Year	Pvt.sector	UTI	Public Sector	Total	Asset at the End of period
2006-07	79,038	7,326	7,621	93,985	326,292
2007-08	133,304	9,820	10,677	153,802	505,152
2008-09	-34,018	-3,658	9,380	-28,296	417,300
2009-10	-54,928	15,653	12,499	83,080	613,973
2010-11	-15,446	-16,636	-13,555	-49,406	592,250
2011-12	133,304	-3,184	-3,394	-22,024	505,152

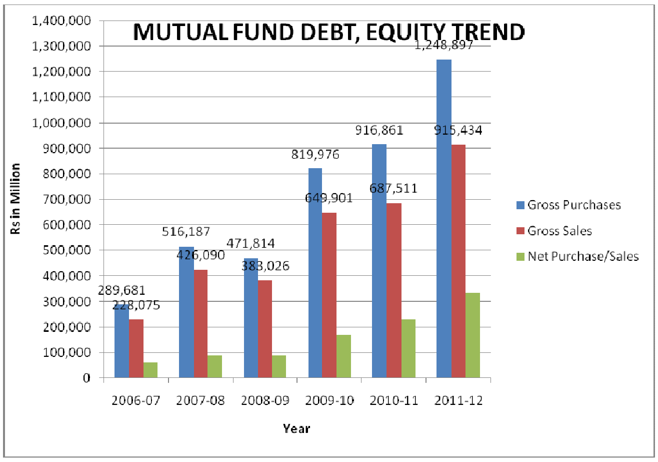


From the above graph it is very clear and evident that in the year 2008-09, there was a significant negative growth in the capital market which reflected in the decline of new purchase of mutual funds by the private /retail investors as well as the Foreign Institutional Investors .The major reason of this crisis was due to the Global melt down in US Financial Markets which led to drastic downfall of our Indian Stock market.



Inspite of the downfall of the global markets ,Indian Mutual Fund Industry,especially the Asset Managed Companies performance was not so bad .It shows our market stability and also balanced economic conditions in India.

Equity Debt Total			
Year	Gross Purchases	Gross Sales	Net Purchase/Sales
2006-07	289,681	228,075	61,606
2007-08	516,187	426,090	90,093
2008-09	471,814	383,026	88,787
2009-10	819,976	649,901	1,70,076
2010-11	916,861	687,511	2,29,352
2011-12	1,248,897	915,434	3,33,463



This paper focuses on the risk return aspect of investment in mutual funds, specially the debt –Equity funds The investors are very particular about making investments in mutual funds since the risk is comparatively less in this segment .The credit goes to our fund managers and the amount of awareness created by the regulators of NBFC's in India .The above chart depicts the overall performance of the Debt Equity funds and thus it very well proved our efficiency in the Capital Market (in spite of the global imbalance)

We have taken the data from 2010 to 2012 of selected Mutual Fund Schemes to do the risk return analysis

We have randomly taken top 10 funds of various companies for our comparison. During 2010-11, there is significant decline in the returns in almost all the top selected funds. The reason being global melt down in the capital markets across the globe .Also the return is basically depends on the amount of risk taken by the investors**.** Since the study is on selected funds in the last three years it is found that risk vs return is more applicable in choosing the investment options.

This findings also helps the fund managers to carry on the trend based on the past performance during different time horizons.

Suggestion and Conclusion:

The role of NBFC's needs more intervention to create awareness in the mindset of the investors and to motivate them to invest in mutual fund sector.

It is suggested that the fund managers have to be very careful during downturn conditions and must avoid taking huge risk which will always protect the investors from the loss.

It is also suggested that the fund managers should invest funds in long term securities so that the investments are safeguarded (since the economic conditions are cyclic in nature)

Conclusion:

There are lot of research scope based on this study for the future prospective researcher's. The areas of research to be done is a very long list and this paper is just a conceptual paper.

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