

Study and Analysis of Mutual Funds

A Project Report

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BONAFIDE CERTIFICATE

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INTRODUCTION :

1.1: Origin of Mutual Funds:

Mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. This pool of money is invested in accordance with a stated objective. The joint ownership of the fund is thus “Mutual”, i.e., the fund belongs to all investors. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities.

Stocks:

Stocks represent shares of ownership in a public company. Examples of public companies include Reliance, ONGC and Infosys. Stocks are considered to be the most common owned investment traded on the market.

Bonds:

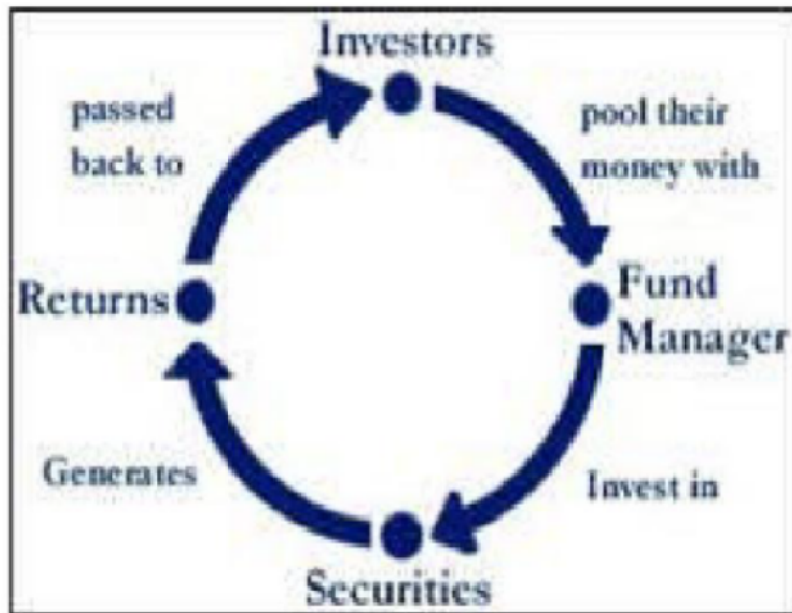
Bonds are basically the money which you lend to the government or a company, and in return you can receive interest on your invested amount, which is back over predetermined amounts of time. Bonds are considered to be the most common lending investment traded on the market. There are many other types of investments other than stocks and bonds (including annuities, real estate, and precious metals), but the majority of mutual funds invest in stocks and/or bonds.

1.2: What is Mutual Fund:

A mutual fund is just the connecting bridge or a financial intermediary that allows a group of investors to pool their money together with a predetermined investment objective. The mutual fund will have a fund manager who is responsible for investing the pooled money into specific securities (stocks or bonds). When you invest in a mutual fund, you are buying units or portions of the mutual fund and thus on investing becomes a shareholder or unit holder of the fund.

Mutual funds are considered as one of the best available investments as compared to others they are very cost efficient and also easy to invest in, thus by pooling money together in a mutual fund, investors can purchase stocks or bonds with much lower trading costs than if they tried to do it on their own. But the biggest advantage of mutual funds is diversification, by minimizing risk & maximizing returns.

Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost. The flow chart below describes broadly the working of a mutual fund.



1.3: Concepts of Mutual Funds:

Concept of Mutual Funds

Many investors with common financial objectives pool their money

Investors, on a proportionate basis, get mutual fund units for

the sum contributed to the pool

The money collected from investors is invested into shares, debentures

and other securities by the fund manager

The fund manager realizes gains or losses, and c

ollects dividend or interest income

Any capital gains or losses from such investments are passed on to

the investors in proportion of the number of units held by them

When an investor subscribes for the units of a mutual fund, he becomes part owner of the assets of the fund in the same proportion as his contribution amount put up with the corpus (the total amount of the fund). Mutual Fund investor is also known as a mutual fund shareholder or a unit holder.

Any change in the value of the investments made into capital market instruments (such as shares, debentures etc) is reflected in the Net Asset Value (NAV) of the scheme, NAV is defined as the market a scheme is calculated by dividing the market value of scheme's assets by the total number of units issued to the investors.

Net Asset Value

Net Asset Value (NAV) represents a fund's per share market value. This is the price at which investors buy (bid price) fund shares from a fund company and sell them (redemption price) to a fund company. Dividing the total value of all the cash and securities in a fund's portfolio, less any liabilities, by the number of shares outstanding, derives it. The NAV computation is undertaken once at the end of each trading day based on the closing market prices of the portfolio's securities.

NAV: Net Assets of the Scheme/Number of Units Outstanding

Or

(Market Value of Investment + Receivable + Other Accrued Income + Other Assets – Accrued Expenses – Other Payables – Other Liabilities)/Number of Units Outstanding on the valuation Date

Market value of the scheme's investments + Other current Asset + deposits

NAV = $\frac{\text{Market value of the scheme's investments} + \text{Other current Asset} + \text{deposits} - \text{all liabilities (except unit capital, reserve and profit and loss account)}}{\text{No. of outstanding units}}$

÷

No. of outstanding units

For the purpose of NAV calculation, the day on which NAV is calculated by a fund is known as the valuation Date. NAV of all schemes must be calculated and published at least every Wednesday for Closed-end schemes and

daily for Open-end schemes. The day's NAV must be posted on AMFI website by 8.00 p.m. that day. This applies to both Open-End & Closed End schemes.

The fund's NAV is affected by these 4 factors:

- Purchase & Sale of investment securities
- Valuation of all investment securities held
- Other assets & liabilities
- Units sold or redeemed.

1.4: ADVANTAGES OF INVESTING MUTUAL FUNDS:

1. **Professional Management :** the basic advantage of funds is that, they are professional managed, by well qualified professional. Investors purchase funds because they do not have the time or the expertise to manage their own portfolio. A mutual fund is considered to be relatively less expensive way to make and monitor their investments.
2. **Diversification:** Purchasing units in a mutual fund instead of buying individual stocks or bonds, the investors risk is spread out and minimized upto certain extent. The idea behind diversification is to invest in a large number of assets so that a loss in any particular investment is minized by gains in others
3. **Economic of Scale:** mutual fund buy and sell large amounts of securities at a time, thus help to reducing transaction costs, and help to bring down the average cost of thee unit for their investors.
4. **Liquidity:** just like an individual stock, mutual fund also allows investors to liquidate their holdings as and when they want.
5. **Simplicity:** investments is mutual fund is considered t be easy, compare to other available instruments in the market, and the minimum investment is small most AMC also have automatic purchase plans whereby as little as Rs.2000, where SIP start with just Rs.50 per month basis.

1.5: DISADVANTAGES OF INVESTING MUTUAL FUNDS:

1. **Professional Management** : Some funds doesn't perform in neither the market, as trtheir management is not dynamic enough to explore the available opportunity in the market, thus many investors debate over whether or not the so-called professional are any better than mutual fund or investors him self, for picking up stocks.
2. **Costs**: The biggest source of AMC income, is generally from the entry & exit load which they charge from an investors, at the time of purchase. The mutual fund industries are thus charging extra cost under layers of jargon.
3. **Dilution** : Because funds have small holdings across different companies, high returns from a few investments often don't make much difference on the overall return. Dilution is also the result of a successful fund getting too big. When money pours into funds that have had strong success, the manager often has trouble finding a good investment for all the new money.
4. **Taxes** : when making decisions about your money, fund managers don't consider your personal tax situation. For example, when a fund manager sells a security, a capital-gain tax is triggered, which affects how profitable the individual is from the sale. It might have been more advantageous for the individual to defer the capital gains liability.

1.6: THE MUTUAL FUNDS INDUSTRY (HISTORY)

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 the. The history of mutual funds in India can be broadly divided into four distinct pahses

First Phase – 1964-87

Unit trust of India (UTI) was established on 1963 by an act of parliament. It was set up by the reserve bank of India and functioned under the regulatory and administrative control of the reserve bank of India. In 1978 UTI was de-linked from the RBI and the industrial development bank of India (IDBI) took over the regulatory and administrative control in ploace of RBI. The first scheme launched by UTI was unit scheme 1964. At the end of 1988 UTI had Rs.6,700 crores of assets under management.

Second Phase – 1987-1993 (entry of public sector funds)

1987marked the entry of non-UTI, Public sector mutual funds set up by public sector banks and life insurance corporation of India (LIC) and general insurance corporation of India (GIC), SBI mutual fund was the first non-UTI mutual fund established IN June 1987 followed by canbank mutual fund (dec87), Punjab National Bank mutual fund (aug 89), India Bank mutual fund (nov 89), Bank of India (June 90), Bank of Baroda mutual fund (oct 92), Lic established its mutual fund in June 1989 while GIC had set up its mutual fund in December 1990.

At the end of 1993, the mutual fund industry had assets under management of Rs.47, 004 crores.

THIRD PHASE – 1993-2003 (entry of private sector funds)

With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund families. Also, 1993 was the year in which the first mutual fund regulations come into being, under which all mutual funds, except uti were to be registered and governed. The erstwhile Kothari pioneer (now merged with Franklin

Templeton) was the first private sector mutual fund registered in July 1993.

The 1993 SEBI (mutual fund) regulations were substituted by a more comprehensive and revised mutual fund regulations in 1996. The industry now functions under the SEBI (mutual fund) regulations 1996.

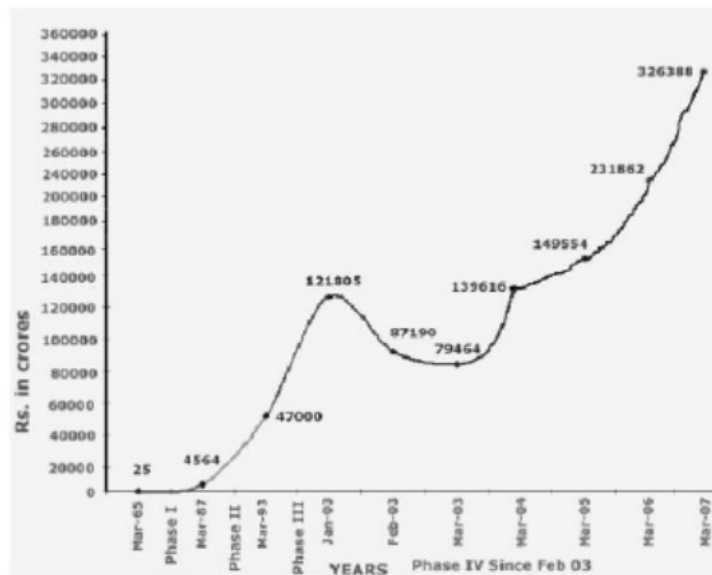
The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. As at the end of January 2003, there were 33 mutual funds with total assets of Rs.121,805 crores. The unit trust of India with Rs.44,541 crores of assets under management was way ahead of other mutual funds.

Fourth phase – since February 2003

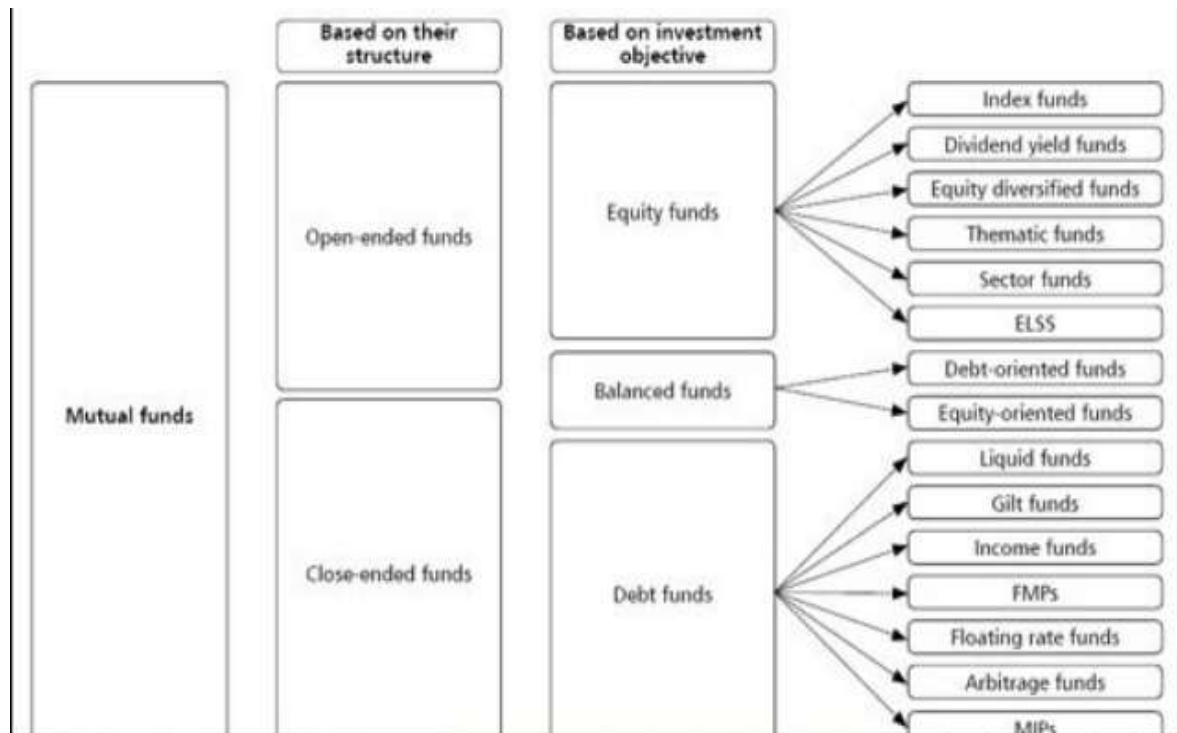
In February 2003, following the repeal of the unit trust of India act 1963 UTI was bifurcated in two separate entities . One is the specified undertaking of the unit trust of India with assets under management of Rs.29,835 crores as at the end of January 2003, representing broadly, the assets of its 64 scheme, assured return and certain other schemes. The specified undertaking of unit trust of India, functioning under an administrator and under the rules framed by government of India and does not come under the purview of the mutual fund regulations.

The second is the UTI mutual fund ltd, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the mutual fund regulations. With the bifurcation of the erstwhile UTI which had in March 2000 more than Rs.76,000 crores of assets under management and with the setting up of a UTI mutual fund, conforming to the SEBI mutual fund regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth as at the end of September, 2004, there were 29 funds, which manage assets of Rs.153108 crores under 421 schemes.

The graph indicates the growth of assets over the years



1.7: CATEGORIES OF MUTUAL FUND:



Mutual funds can be classified as follow:

- ❖ **Based on their Structure**

- ❖ **Open-ended funds :** Investors can buy and sell the units from the fund, at any point of time

- ❖ **Close-Ended funds:** These funds raise money from investors only once. Therefore, after the offer period, fresh investments can not be made into the fund. If the fund is listed on a stock exchange the units can be traded like stocks (E.g., Morgan Stanley Growth Fund)., recently, most of the New fund Offers of close-ended funds provided liquidity window on a periodic basis such as monthly or weekly. Redemption of units can be made during specified intervals. Therefore, such funds have relatively low liquidity.

- ❖ **Based on their investment objective :**

Equity funds: these funds invest in equities and equity related instruments. With fluctuating share prices, such funds show volatile performance, even losses. However, short term fluctuations in the market, generally smoothens out in the long term, thereby offering higher returns at relatively lower volatility. At the same time, such funds can yield great capital appreciation as, historically, equities have outperformed all asset classes in the long term. Hence, investment in equity funds should be considered for a period of at least 3-5 years. It can be further classified as:

- Index Funds** – In this case a key stock market index, like BSE Sensex or Nifty is tracked. Their portfolio mirrors the benchmark index both in terms of composition and individual stock weight ages.
- Equity diversified funds-** 100% of the capital is invested in equities spreading across different sectors and stocks.

- iii. **Dividend yield funds** – it is similar to the equity diversified funds except that they invest in companies offering high dividend yields.
- iv. **Thematic funds** – Invest 100% of the assets in sectors which are related through some theme.
- v. **Sector funds** – Invest 100% of the capital in a specific sector. E.g.
 - A banking sector fund will invest in banking stocks.
- vi. **ELSS** – Equity linked Saving Scheme provides tax benefit to the investors.

Balanced fund : Their investment portfolio includes both debt and equity. As a result, on the risk-return ladder, they fall between equity and debt funds. Balanced funds are the ideal mutual funds vehicle for investors who prefer spreading their risk across various instruments.

Following are balanced funds classes:

- i. Debt-oriented funds – Investment below 65% in equities.
- ii. Equity-oriented funds- Invest at least 65% in equities, remaining in debt.

Debt fund : they invest only in debt instruments, and are a good option for investors averse to idea of taking risk associated with equities. Therefore, they invest exclusively in fixed –income instruments like bonds, debentures, Government of India securities; And money market instruments such as certificates of deposit (CD), commercial paper (CP) and call money. Put your money into any of these debt funds depending on your investment horizon and needs.

- i. **Liquid funds** – These funds invest 100% in money market instruments, a large portion being invested in call money market.

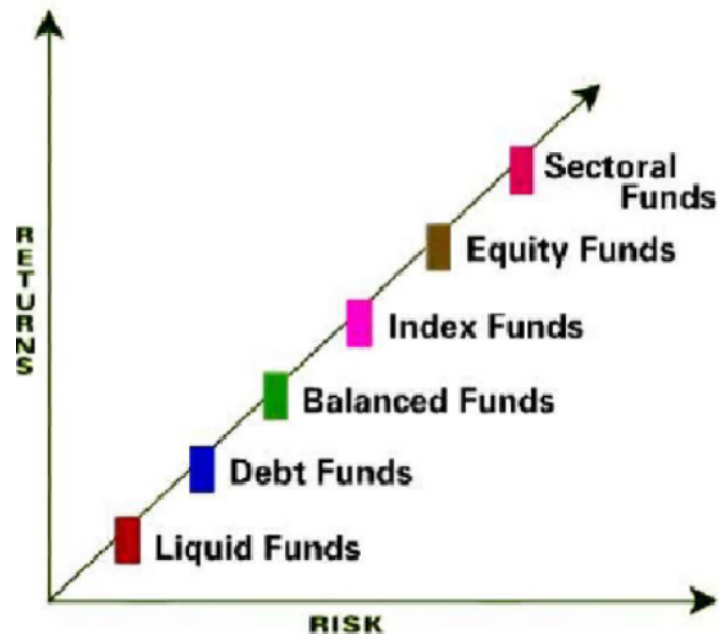
- ii. **Gilt funds ST** – They invest 100% of their portfolio in government securities of and T-bills.
- iii. **Floating rate funds:** invest in short-term debt papers. Floaters invest in debt instruments which have variable coupon rate.
- iv. **Arbitrage fund** – They generate income through arbitrage opportunities due to mis-pricing between cash market and derivatives market. Funds are allocated to equities derivatives and money markets. Higher proportion (around 75%) is put in money markets, in the absence of arbitrage opportunities.
- v. **Gilt funds LT:** They invest 100% of their portfolio in long-term government securities.
- vi. **Income funds LT-** Typically, such funds invest a major portion of the portfolio in long-term debt papers.
- vii. **MIPs** – Monthly Income Plans have an exposure of 70%-90% to debt and an exposure of 10%-30% to equities.
- viii. **FMPs:** fixed monthly plans invest in debt papers whose maturity is in line with that of the fund.

1.8: INVESTMENT STRATEGIES

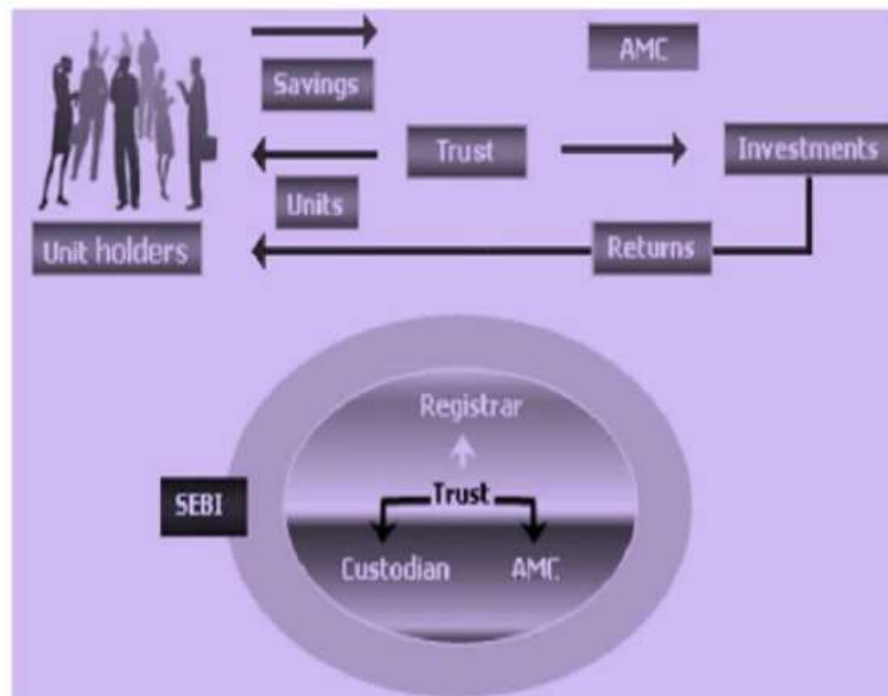
1. **Systematic Investment Plan:** Under this a fixed sum is invested each month on a fixed date of a month. Payment is made through post dated cheques or direct debit facilities. The investor gets fewer units when the NAV is high and more units when the NAV is low. This is called as the benefit of Rupee Cost Averaging (RCA)
2. **Systematic Transfer Plan:** under this an investor invests in debt oriented fund and gives instructions to transfer a fixed sum, at a fixed interval, to an equity scheme of the same mutual fund.

3. **Systematic Withdrawal Plan** : if someone wishes to withdraw from a mutual fund then he can withdraw a fixed amount each month.

1.9: RISK V/S.RETURN:



1.10: WORKING OF A MUTUAL FUND:



The entire mutual fund industry operates in a very organized way. The investors, known as unit holders, handover their savings to the AMC's under various schemes. The objective of the investment should match with the objective of the fund to best suit the investors' needs. The AMC's further invest the funds into various securities according to the investment objective. The return generated from the investments is passed on to the investors or reinvested as mentioned in the offer document.

1.11.PERFORMANCE OF MUTUAL FUNDS IN INDIA

Let us start the discussion of the performance of mutual funds in India from the day

player. Though the 1988 year saw some new mutual fund companies, but UTI remained

The concept of mutual fund took birth in India. The year was 1963. Unit Trust of India invited investors or rather to those who believed in saving, to park their money in UTI Mutual Fund.

For 30 years it goaled without a single second ained in a monopoly position.

The performance of mutual funds in India in the intial phase was not even closer to satisfactory level. People rarely understood, and of course investing was out of question. But yes, some 24 million shareholders was accustomed with guaranteed high returns by the beginning of liberalization of the industry in 1992. This good record of UTI became marketing tool for new entrants. The expectations of investors touched the sky in profitability factor. However, people were miles away from the preparedness of risks factor after the liberalization.

The Assets Under Management of UTI was Rs.67 bn. By the end of 1987. Let me concentrate about the performance of mutual funds in India through figures. From Rs.67bn. the Assets Under Management rose to Rs.470bn. in March 1993 and the figure had a three times higher performance by April 2004. It rose as high as Rs.1,540bn.

The net asset value (NAV) of mutual funds in India declined when stock prices started falling in the year 1992. Those days, the market regulations did not allow portfolio shifts into alternative investments. There were rather no choice apart from holding the cash or to further continue investing in shares. One more thing to be noted, since only closed-end funds were floated in the market, the investors disinvested by selling at a loss in the secondary market.

The performance of mutual funds in India suffered qualitatively. The 1992 stock market scandal, the losses by disinvestments and of course the lack of transparent rules in the where about rocked confidence among the investors. Partly owing to a relatively weak stock market performance, mutual funds have not yet recovered, with funds trading at an average discount of 1020 percent of their net asset value.

The supervisory authority adopted a set of measures to create a transparent and competitive environment in mutual funds. Some of them were like relaxing investment restrictions into the market, introduction of open-ended funds, and paving the gateway for mutual funds to launch pension schemes.

The measure was taken to make mutual funds the key instrument for long-term saving. The more the variety offered, the quantitative will be investors.

1.12.NEED FOR THE STUDY:

India's saving rate is over 23%. Which is one of the highest in the world. In order to accelerate economic development of our county, it is not only necessary to increase the rate of savings. But also to improve the holding pattern of such savings. Savings held in the form of currency or physical assets either remainly are kept and unproductive are wasted. The government steps to channel the financial savings one of the major contributions for the rapid economic growth. The effects towards financialization of savings and the general reluctance of the investing populace demand the active role of mutual funds.

The Indian house hold sectors investment in mutual funds made a greater beginning in the second half of eighties. Though apparently mutual funds were indented to cater to the need of the retail investors, there had been no sufficient response from them mutual funds are supposed to the best investment vehicle for small investors and hence there is a need to find out investors perception and factors influencing their decisions. So there is a dare necessity to identity how far mutual funds satisfy the aspirations of the investors.

1.13.SCOPE OF THE STUDY:

A big boom has been witnessed in Mutual fund industry in resent ties. A large number o new players have entered the market and trying to gain market share in this rapidly improving market.

The research was carried on in Andhra Pradesh. I had been sent at one of the branch of state bank of India Andhra Pradesh where I completed my project work. I surveyed on my project topic “A study of preferences of the investors for investment in Mutual Fund” on the visiting customers of the ICICIdirect sector 9, Branch.

The study will help to know the preferences of the customers, which company, portfolio, mode of investment, option for getting return and so on they prefer. This project report may help the company to make further planning and strategy.

1.14.LIMITATIONS OF THE STUDY:

- Some of the persons were not so responsive.
- Possibility of error in data collection because many of investors may have not given actual answers of my questionnaire.
- Sample size is limited to 200 visitors of, icicidirect sec 9, Andhra Pradeshout of these only 120 had invested in Mutual fund. The sample size may not adequately represent the whole market.

- Some respondents were reluctant to divulge personal information which affects the validity of the responses.

1.15.ORGANISATION OF THE STUDY:

The Project work is organized into 4 chapters as detailed below:

Chapter -1: Presence Origin and Evaluation of Mutual Funds, statement of the problem, Scope of the Study and Limitation of the Study.

Chapter-II: Deals with the comprehensive Review of Literature and Methodology and Company Profile.

Chapter-III: Studies the perception of Investors, relating to Mutual Funds Investment.

Chapter-IV: Summary, Conclusion and Finding.

2.1.OBJECTIOVES OF THE STUDY

1. To study origin and evaluation of mutual funds in India.
2. To review of literature, methodology and company profile of the study.
3. To study the attitude of investors towards investment in Mutual Funds.
4. To study the findings, Conclusion, suggestions and Recommendations.

REVIEW OF LITERATURE & RESEARCH METHODOLOGY

2.2. Review of Literature

Jack Treynor (2013) developed a methodology for performance evaluation of a mutual fund that is referred to as reward to volatility measure, which is defined as average excess return on the portfolio. This is followed by Sharpe (1966) reward to variability measure, which is average excess return on the portfolio divided by the standard deviation of the portfolio.

Sharpe (2012) developed a composite measure of performance evaluation and imported superior performance of 11 funds out of 34 during the period 1944-63.

Michael C. Jensen (2012) conducted an empirical study of mutual funds in the period of 1954-64 for 115 mutual funds. The results indicate that these funds are not able to predict security prices well enough to outperform a buy the market and hold policy. The study ignored the gross management expenses to be free. There was very little evidence that any individual fund was able to do significantly better than which investors expected from mere random chance.

Sadhak's book (2013) "Mutual funds in India, Marketing strategies and investment practices" is highly analytical & thought provoking. Much research has gone into writing of this book and hence highly useful to researchers. An attempt is made of the first time in presenting Marketing strategies of Mutual funds.

Verma's book (2014) 'Guide to mutual funds & Investment portfolios of Indian mutual funds with some statistical data guidelines to the investors in selection of schemes etc.

K. Pendaraki (2011) et al. studied construction of mutual fund portfolios, developed a multi- criteria methodology and applied it to the Greek market of equity mutual funds. The methodology is based on the combination of discrete and continuous multi-criteria decision aid methods for mutual fund selection and composition. UTADIS multi-criteria decision aid method is employed in order to develop mutual fund's performance models. Goal programming model

is employed to determine proportion of selected mutual funds in the final portfolios.

Michael K. Berkowitz and Yehuda Katouritz (2012) in their paper examined the relationship between the fees changes by mutual funds and their performance. The work distinguished between high & low quality funds and sheds some additional light on the growing controversy concerning the role of independent directors as monitors of the fee setting practices written the funds. They found that for high quality managers, there is a positive relationship between fees & performance. In contrast for lower Quality Managers, there is a negative relationship between fees and performance. The authors believed this reflects the incentive for poor managers to extract shorter benefits from investors as the likelihood of survival is lower for poor performing managers. The results were consistent with the notion that the independent directors whose responsibility is to safeguard the interest of shareholders may not be effective in doing so.

S.Narayan Rao (2012) et. al., evaluated performance of Indian mutual funds in a bear market through relative performance index, risk-return analysis, Treynor's ratio, Sharpe's ratio, Jensen's measure, and Fama's measure. The study used 269 open-ended schemes (out of total schemes of 433) for computing relative performance index. Then after excluding funds whose returns are less than risk-free returns, 58 schemes are finally used for further analysis. The results of performance measures suggest that most of mutual fund schemes in the sample of 58 were able to satisfy investor's expectations by giving excess returns over expected returns based on both premium for systematic risk and total risk.

Bijan Roy & Saikat Sovan Deb (2010) in the article "conditional alpha & performance persistence for Indian Mutual funds Empirical evidence" investigated the Indian MF managers contribution to better performance. The research found that on an average the Indian MF managers only captures the

opportunities from the available economic information, they do not contribute beyond it. The paper stresses that, the above basing on when the beta the fund is conditioned to lag economic information variables, the fund on an average becomes negative. The information variables used in the study are interest rates, dividend yields, term structure yield spread and a dummy. The authors also examined the evidence of persistence in the performance of IMF based on cross sectional regressions of future excess returns on a measure of past fund performance and used both conditional & unconditional measures of performance as measure of part fund performance. The results indicated that conditional measures of past performance predict the future fund returns significantly.

Nalini Prava Tripathy(2012) in the article entitled “An Empirical Evaluation of Market Timing Abilities of Indian fund Managers on Equity Linked Saving Scheme” analysed the market timing abilities of Indian Fund manager in form of two models, one by Treynor and Mazuy and the other by Henriksson and Merton. The results indicated that Indian fund managers are not able to time the market correctly. There is only one scheme out of 31 which exhibited the timing ability of the fund manager.

Zakri Y.Bello (2011) matched a sample of socially responsible stock mutual funds matched to randomly select conventional funds of similar net assets to investigate differences in characteristics of assets held, degree of portfolio diversification and variable effects of diversification on investment performance. The study found that socially responsible funds do not differ significantly from conventional funds in terms of any of these attributes. Moreover, the effect of diversification on investment performance is not different between the two groups. Both groups underperformed Domini 400 Social Index and S & P 500 during the study period.

Sharad Panwar and R. Madhumathi (2013) in the paper entitled “characteristics and performance evaluation of selected mutual funds in India”

studied a sample of public sector sponsored & private sector sponsored funds of varied net assets to investigate the differences in characteristics of assets held, portfolio diversification and variable effects of diversification on investment performance for the period may 2002 to may 2005. The paper resulted that public sector sponsored funds also not differ significantly from private sector sponsored funds in term of mean returns percent however they said there is a significant difference between public sector sponsored MFs. & private sector sponsored MFs in terms of average standard deviation, average variance and average co-efficient of variation. It is also found out that there is no statistical difference between sponsorship classes in terms of excess standard deviation adjusted returns as a performance measure. When they used residual variance (RV) as a measure of MF portfolio diversification characteristic, there was a statistical difference between public – sector sponsored mutual fund and private sector sponsored MF for the study period. The model built on testing the impact of diversification on fund performance they found a statistical difference among sponsorship classes when residual variance is used as a measure of portfolio diversification and excess standard deviation adjusted returns as a performance measure.

D.N. Rao (2013)“4 step model to evaluate performance of mutual funds in Saudi Arabia” studied 4 step model for selecting the right equity fund and illustrated the same in the context of equity mutual funds in Saudi Arabia. The study revealed that most of the funds invested in Arab stocks had been in existence for less than a year and the volatility of the GCC stock markets contributed to the relatively poor performance of these funds and the turnaround of these funds could take place only with the rallying of GCC and other Arab markets. Out of the six categories of equity mutual funds in Saudi Arabia discussed above, Funds invested in Asian and European stocks were more consistent in their performance and yielded relatively higher returns than other categories, though funds invested in Saudi stocks yielded higher 3-year returns.

Given the future outlook of Asian economies, particularly China and India and the newly emerging economies such as Brazil and Russia, funds invested in the stocks of these countries are likely to continue their current performance in near future.

Ajay Khorana, Peter Tufano and Lei Wedgein (2014) in the study named “Board structure, mergers, and shareholders wealth. A study of the mutual fund industry” studied mutual fund mergers between 1999 and 2001 to understand the role and effectiveness of fund boards. The study found some fund mergers typically across family mergers benefit target shareholders but are costly to target fund directors. Such mergers are more likely when funds underperform and their boards have a larger percentage of independent tributes, suggesting that more independent boards tolerate less under performance before initiating across family mergers. The paper indicated the effect is most pronounced when all of the funds directors are independent, not the 75 percent level of independence required by the SEC. It is also said higher paid target fund board is less likely to approve across family mergers that cause substantial reductions in their compensation.

Karoui, Aymen and Meier, Iwan (2012) in the paper “Performance and characteristics of mutual fund” studied the performance and portfolio characteristics of 828 newly launched U.S. equity mutual funds over the time period 1991-2005 using Carhart (1997) 4 factor asset pricing model. The study revealed new U.S. equity mutual funds outperformed their peers by 0.12 percent per month over the first three years. However, there were distinct patterns in this superior risk adjusted performance estimated using Carhart’s (1997) 4 factor model. The number of fund that started to outperform older funds shrunk substantially after one to three years. These results suggested that the initially favorable performance was to some extent due to risk taking and not necessarily superior manager skill. Scrutinizing the returns further confirmed that the returns of the fund started to exhibit higher standard deviations and higher

unsystematic risk that could not be explained by the risk exposure to the four factors of the Carhart model.

2.3.METHODOLOGY:

This report is based on primary as well secondary data, however primary data collection was given more importance since it is overbearing factor in attitude studies. One of the most important users of research methodology is that it helps in identifying the problem, collecting, analyzing the required information data and providing an alternative solution to the problem. It also helps in collecting the vital information that is required by the top management to assist them for the better decision making both day to day decision and critical ones.

DATA SOURCES:

Research is totally based on primary data. Secondary data can be used only for the reference. Research has been done by primary data collection, and primary data has been collected by interacting with various people. The secondary data has been collected through various journals and websites.

2.4.COMPANY PROFILE:

ABOUT ICICI GROUP:



ICICI Group offers a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and

through its specialized group companies, subsidiaries and affiliates in the areas of personal banking, investment banking, life and general insurance, venture capital and asset management. With a strong customer focus, the ICICI Group companies have maintained and enhanced their leadership position in their respective sectors.

ICICI Bank is India's second-largest bank with total assets of Rs.3,793.01 billion (US\$75 billion) at March 31st 2013 and profit after tax Rs.37.58 billion for the year ended March 31st 2013. The bank has a network of 1,451 branches and about 4,721 ATM in India and presence in 18 countries.

ICICI Prudential Life Insurance Company is a 74:26 joint venture with Prudential plc (UK). It is the largest private sector life insurance company offering a comprehensive suite of life, health and pensions products. It is also the pioneer in launching innovative health care products like Diabetes Care Active and health Saver the company operates on a multi-channel platform and has a distribution strength of over 2,76,000 financial advisors operating from more than 2000 branches spread across 1800 locations across the country. In addition to the agency force, it also has tie-ups with various banks, corporate agents and brokers. In fiscal 2013, ICICI Prudential attained a market share of 10.9% based on retail weighted premium and garnered a total premium of Rs.153.56 billion registering a growth of 13% and held assets of Rs.327.88 billion as on March 31, 2013.

ICICI Lombard General Insurance Company, a joint venture with the Canada based Fairfax Financial Holdings, is the largest private sector general insurance company. It has a comprehensive product portfolio catering to all corporate and retail insurance needs and is present in over 300 locations across the country. ICICI Lombard General Insurance has achieved a market share of 27.2% among private sector general insurance companies and an overall market share of 11.2% during fiscal 2013. The gross return premium grew by 2.2%

from Rs.33.45billion in fiscal 2012 to 34:20 billion in fiscal 2013.

ICICI Securities Ltd is the largest equity house in the country providing end-to-end solutions (including web-based services) through the largest non-banking distribution channel so as to fulfill all the diverse needs of retail and corporate customers. ICICI Securities (I-Sec) has a dominant position in its core segments of its operations – Corporate Finance including Equity Capital Markets Advisory Services, Institutional Equities, Retail and Financial Product Distribution.

ICICI Securities Primary Dealership Limited is the largest Primary Dealer in Government Securities. It is an acknowledged leader in the Indian fixed income and money markets, with a strong franchise across the spectrum of interest rate products and services – institutional sales and trading, resource mobilization, portfolio management services and research. One of the first entities to be granted Primary Dealership license by RBI, I-Sec PD has made pioneering contributions since inception to debt market development in India. I-Sec PD is also credited with pioneering debt market research in India.

ICICI Prudential Asset Management is the second largest mutual fund with asset under management of Rs.547.74 billion and a market share of 10.2% as on March 31, 2012. The company manages a comprehensive range of mutual fund schemes and portfolio management services to meet the varying investment needs of its investors whrough 235 branches spread across the country. Incorporated in 1987, ICICI Venture is the oldest and the largest private equity firm in India. The funds under management of ICICI Venture have increased at a 5 year CAGR of 49% to Rs.95.50 billion as on March 31, 2012.

PRODUCTS & SERVICES OFFERED BY ICICI DIRECT

1. DEMAT ACCOUNT :

A unique 3-in-1 On-line Trading Account

Seamless, Secure and Integrated 3-in-1 trading plat for...

Our 3-in-1 trading platform links your banking, trading and demat accounts, ensuring unmatched convenience for customers.

- a) **Seamless Trading** : You can trade in shares without going through the hassle of tracking settlement cycles, writing cheques and transfer instructions.
- b) **Security** : Instead of transferring monies to a broker's pool or towards deposits, you can manage your own demat and bank accounts when you trade through ICICIdirect.com. It provides you the flexibility to pay only when you trade.
- c) **Wide range of products** : Share trading in both NSE and BSE, innovative offerings like – Margin, Margin Plus, BTST, SPOT. Derivatives trading, overseas trading, mutual funds, IPOs and on-line life insurance.

We also offer a wide array of services:

ICICIdirect.com On-The-Move: An innovative low bandwidth site which helps you trade at high speeds even through low bandwidth connections like data card and GPRS.

Call N Trade : In situations when you are unable to log in to icicidirect.com website, you can place orders securely over the telephone with the Call N Trade service.

ICICIdirect.com Equity Advisory Group : A premium service for privileged customers with an assigned equity advisor who will guide you in placing trades.

ICICI Securities ATS (Active Trader Services) : A service for the born trader, who lives in and breathes the stock market with specialized research and directed relationship managers.

ICICIdirect Knowledge Program : ICICIdirect Knowledge Programs provide you with an insight into a wide range of financial products like derivatives, shares, mutual funds, IPOs, small savings and insurance to grow your money and cater to your varying needs across different stages of life. More than just products these programs help you make informed investment decisions and manage your money better.

2. MUTUAL FUND INVESTMENTS

Investing in Mutual Funds :

ICICIdirect.com brings you the same convenience while investing in Mutual funds also – Hassle free and Paperless investing.

With the inclusion of Fidelity MF, you can now invest on-line in 19 mutual Funds through ICICIdirect.com. Prudential ICICI MF, JM MF, Alliance MF, Franklin Templeton MF, Sundaram MF, Birla Sun Life MF, HDFC MF, Principal MF, UTI MF, Reliance MF, Kotak MF, Tata MF, DSP Merrill Lynch MF, ING MF, CHOLA MF, Deutsche MF, HSBC MF and Standard Chartered MF are the Mutual Funds available for investment. You can invest in mutual funds without the hassles of filling application forms or any other paperwork. You need no Signature or proof of identity for investing.

Once you place a request for investing in a particular fund, there are no mutual processes involved. Your bank funds are automatically debited or credited while simultaneously crediting or debiting your unit holdings.

You also get control over your investment investments with online order confirmation and order status tracking. Get to know the performance of your investments through online updation of MF portfolio with current NAV.

Icicidirect.com offers you various options while investing in Mutual Funds.

Purchase : you may invest class purchase Prudential ICICI MF, JM MF, Reliance MF, Franklin Templeton MF, Sundaram MF, Birla Sun life MF, HDFC MF, Principal MF, UTI MF, Standard Chartered MF, Reliance MF,

Kotak MF, Tata MF, DSP Merrill Lynch MF, ING MF, CHOLA MF, Deutsche MF, HSBC MF and Fidelity MF without the hassles of filling application forms.

Redemption: in addition to giving hassle-free paperless Redemption,

ICICIdirect.com offers faster liquidity. You can redeem the mutual funds units the ICICIdirect.com. The money will be credited to your bank account automatically 3 days after the order placement date.

Switch: To suit your changing needs you may wish to shift monies between different schemes. You can switch your monies online from one scheme to another in the same fund family without any hassles.

Systematic investment plans (SIP) : SIP allows you to withdraw a certain sum of money over a period of time periodically.

Transfer-in: You can convert your existing Mutual Funds into electronic mode through a transfer-in request.

OVERSEAS TRADING

Rational of overseas trading facility offered by ICICI direct

Under liberalized remittance scheme of Reserve Bank of India resident individuals are allowed to remit up to USD 2,00,000 in a financial year (April to March) for any current or capital account transaction a combination of both. Under this scheme ICICIdirect has facilitated its customers to invest in various stocks and options that are traded on the exchanges in United States of America.

Products offered under Overseas trading facility

- Equities
- Enhanced reading funds
- Stock options
- Index options

4..IPOs and Bonds Online:

You could also invest in Initial Public Offers (IPOs) and Bonds online without going through the hassles of filling ANY application form/paperwork.

Get in-depth analyses of IPOs issues (initial public offerings) which are about to hit the market and analyses on these. IPO calendar, recent IPO listings prospectus/offer documents and IPO analysis are few of the features, which help you, keep on top of IPO markets.

5.FINANCIAL PLANNING

Financial planning is a process that

- Reviews your current financial position
- Sets goals for the future and
- Creates a plan to achieve those goals

ICICIdirect recently launched its Walth G.R.I.P (Goals, Retirement, Investment & Protection) that enables you to articulate your needs, convert them into financial goals and effectively plan for the same.

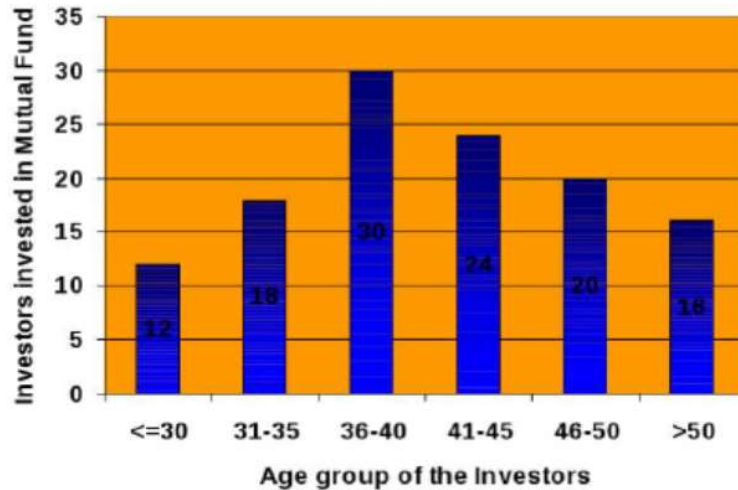
The final output for you will be a comprehensive and easy-to-read financial plan report containing various sections that give you a complete snapshot of :

- Where you are currently
- What you need to do to achieve your goals
- How you need to go about
- Managing your savings and investments
- Your risk profile and risk-taking ability
- A recommended asset allocation model

ANALYSIS AND INTERPRETATION OF THE DATA

3.1.(A) Age distribution of the Investors of Andhra Pradesh

Age Group	<=30	31-35	36-40	41-45	46-50	>50
No.of Investors	12	18	30	24	20	16

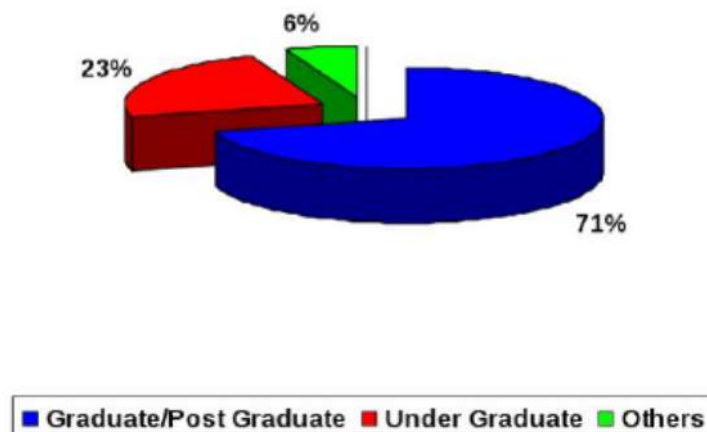


Interpretation:

According to this chart out of 120 Mutual Fund investors of Andhra Pradesh the most are in the age group of 36-40 years. i.e. 25%, the second most investors are in the age group of 41-45 years i.e. 20% and the least investors are in the age group of below 30 years.

(b) . Educational Qualification of investors of Andhra Pradesh:

Educational Qualification	Number of Investors
Graduate/ Post Graduate	88
Under Graduate	25
Others	7
Total	120

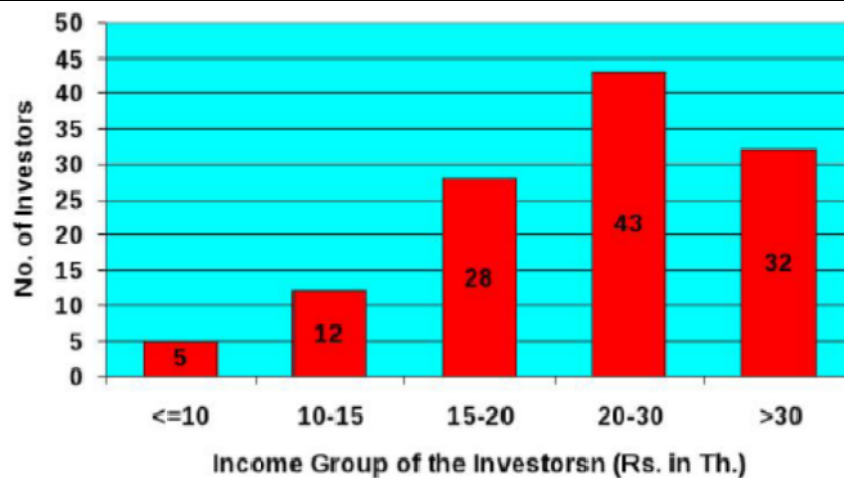


Interpretation:

Out of 120 Mutual Fund investors 71% of the investors in Andhra Pradesh are Graduate/Post Graduate, 23% are Under Graduate and 6% are other (under HSC).

(c). Monthly Family income of the Investors of Andhra Pradesh.

Income Group	No.of Investors
<=10,000	5
10,001-15,000	12
15,001-20,000	28
20,001-30,000	43
>30,000	32

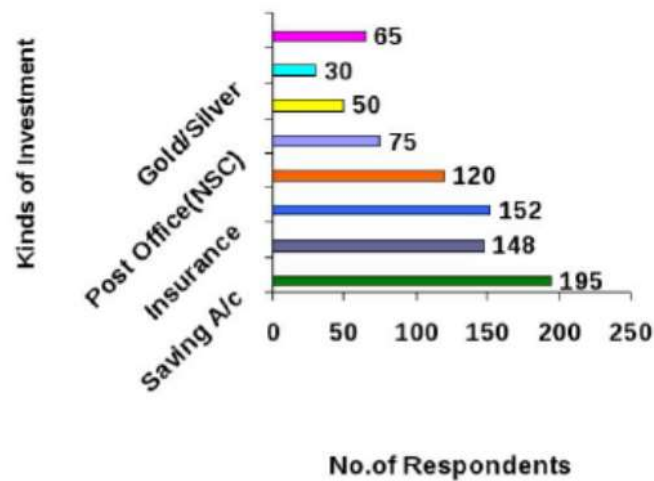


Interpretation:

In the Income Group of the investors of Andhra Pradesh, out of 120 investors, 36% investors that is the maximum investors are in the monthly income group Rs.20,001 to Rs.30,000, Second one i.e.27% investors are in the monthly income group of more than Rs.30,000 and the minimum investors i.e. 4% are in the monthly income group of below Rs.10,000

3.2. Investors invested in different kind of investments.

Kind of Investments	No. of Respondents
Saving A/c	195
Fixed deposits	148
Insurance	152
Mutual Fund	120
Post office (NSC)	75
Shares/Debentures	50
Gold/Silver	30
Real Estate	65

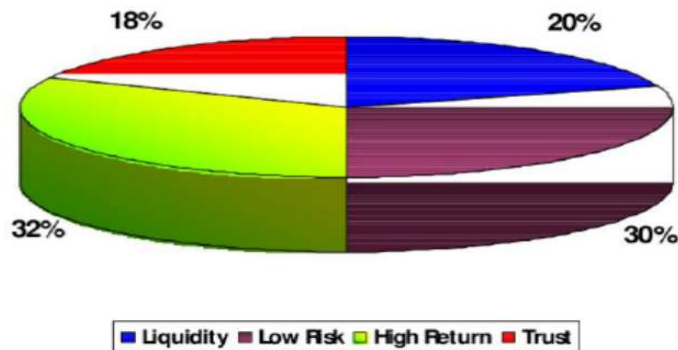


Interpretation:

From the above graph it can be inferred that out of 200 people, 97.5% people have invested in saving A/c, 75% in Insurance, 74% in Fixed Deposits, 60% in Mutual Fund, 37.5% in Post Office, 25% in Shares or Debentures, 15% in Gold/Silver and 32.5% in Real Estate.

3.3. Preference of factors while investing:

Factors	(a) Liquidity	(b) Low Risk	© High Return	(d)Trust
No.of Respondents	40	60	64	36

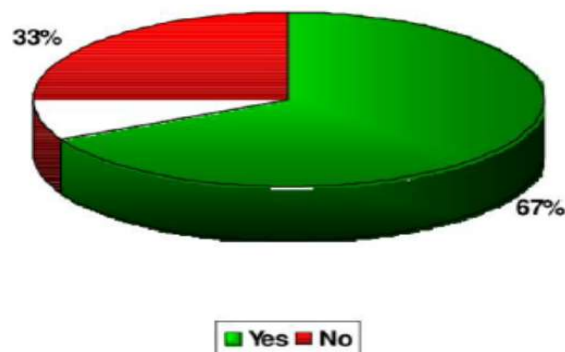


Interpretation:

Out of 200 people, 32% people prefer to invest where there is High Return, 30% prefer to invest where there is Low Risk, 20% prefer easy Liquidity and 18% prefer Trust.

3.4. Awareness about Mutual Fund and its Operations:

Response	Yes	No
No. of Respondents	135	65

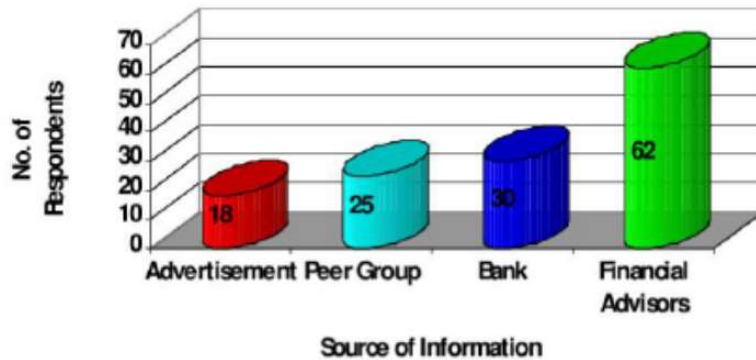


Interpretation:

From the above chart it is inferred that 67% people are aware of Mutual Fund and its operations and 33% are not aware of Mutual Fund and its operations.

3.5. Source of information for customers about Mutual Fund:

Source of information	No. of Respondents
Advertisement	18
Peer Group	25
Bank	30
Financial Advisors	62

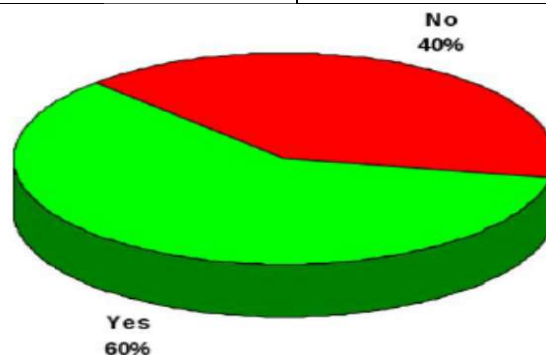


Interpretation:

From the above chart it can be infer that the financial advisor is the most important source of information about Mutual Fund. Out of 135 Respondents, 46% know about Mutual Fund Through Financial Advisor, 22% through Bank, 19% through peer group and 13% through Advertisement.

3.6. Investors invested in Mutual Fund:

Response	No. of Respondents
YES	120
NO	80
Total	200

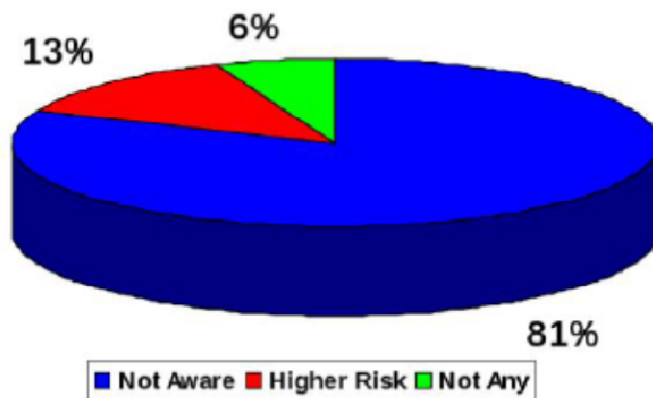


Interpretation:

Out of 200 People, 60% have invested in Mutual Fund and 40% do not have invested in Mutual Fund.

3.7.Reason for not invested in Mutual Fund

Reason	No.of Respondents
Not Aware	65
Higher Risk	5
Not any Specific Reason	10



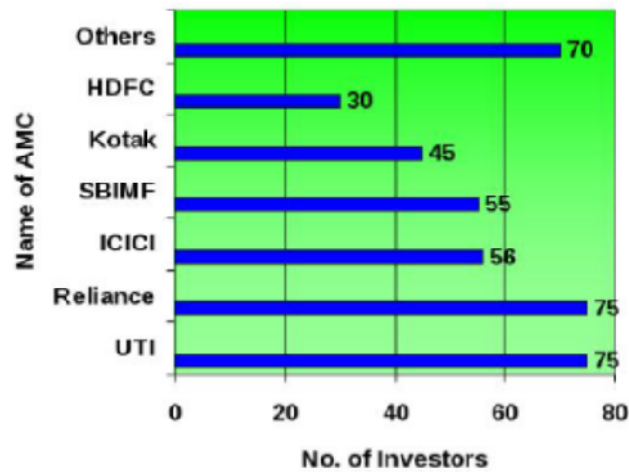
Interpretation:

Out of 80 people, who have not invested in Mutual Fund, 81% are not aware of Mutual Fund, 13% said there is likely to be higher risk and 6% do not have any specific reason.

3.8. Investors invested in different Assets Management Co. (AMC)

Name of AMC	No. of Investors
SBIMF	55
UTI	75
HDFC	30
Reliance	75
ICICI Prudential	56

Kotak	45
Others	70

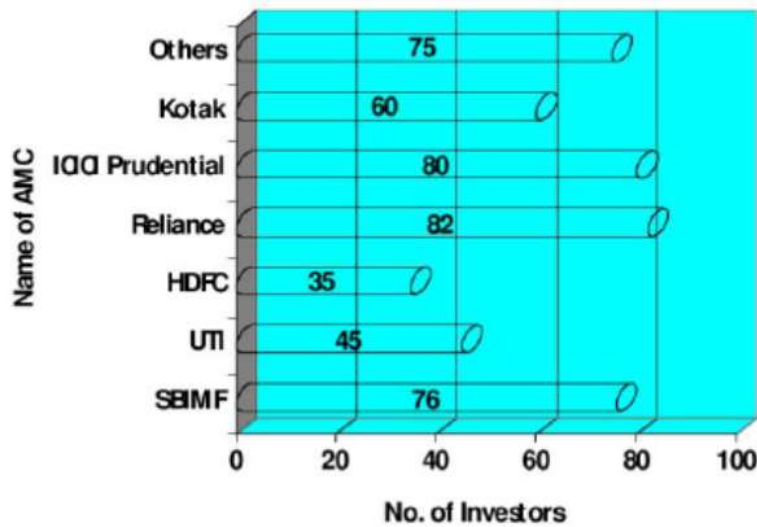


Interpretation:

In Andhra Pradesh most of the investors preferred UTI and Reliance Mutual Fund. Out of 120 Investors 62.5% have invested in each of them, only 46% have invested in SBIMF, 47% in ICICI Prudential, 37.5% in Kotak and 25% in HDFC.

3.9.Preference of Investors for future investment in Mutual Fund:

Name of AMC	No. of Investors
SBIMF	76
UTI	45
HDFC	35
Reliance	82
ICICI Prudential	80
Kotak	60
Others	75

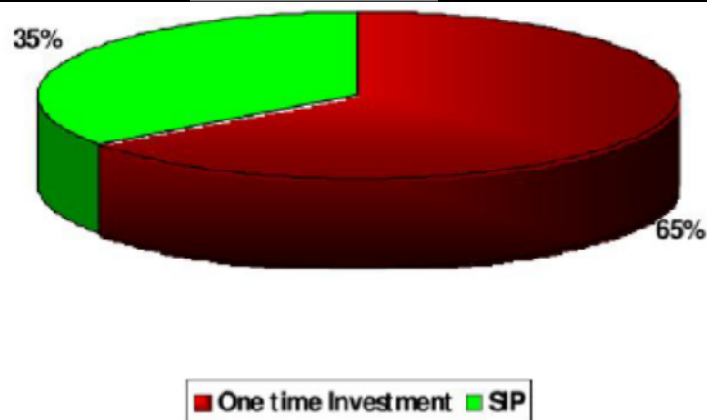


Interpretation:

Out of 120 investors, 68% prefer to invest in Reliance, 67% in ICICI Prudential, 63% in SBIMF, 62.5% in Others, 50% in Kotak, 37.5% in UTI and 29% in HDFC Mutual Fund.

3.10 Mode of Investment Preferred by the Investors:

Mode of Investment	One time Investment	Systematic Investment Plan (SIP)
No. of Respondents	78	42

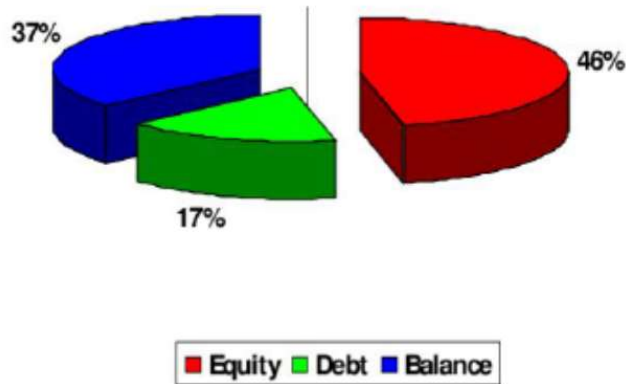


Interpretation:

Out of 120 investors 65% preferred One time Investment and 35% Preferred through Systematic Investment Plan.

3.11. Preferred Portfolios by the Investors

Portfolio	No.of Investors
Equity	56
Debt	20
Balanced	44

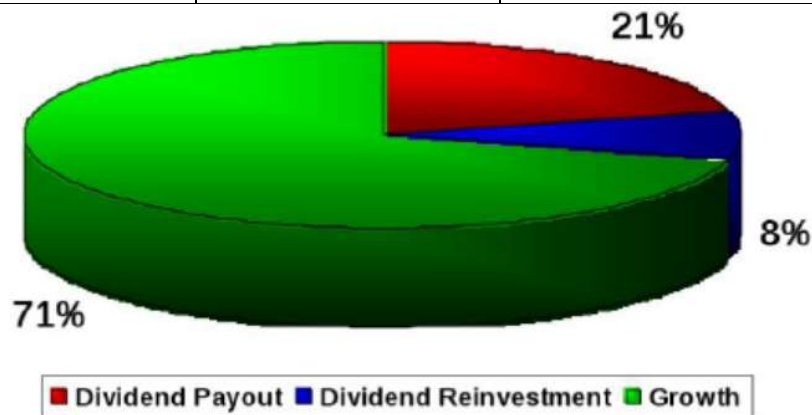


Interpretation:

From the above graph 46% preferred Equity Portfolio, 37% preferred Balance and 17% preferred Debt portfolio.

3.12.Option for getting Return Preferred by the Investors

Option	Dividend payout	Dividend Reinvestment	Growth
No. of Respondents	25	10	85

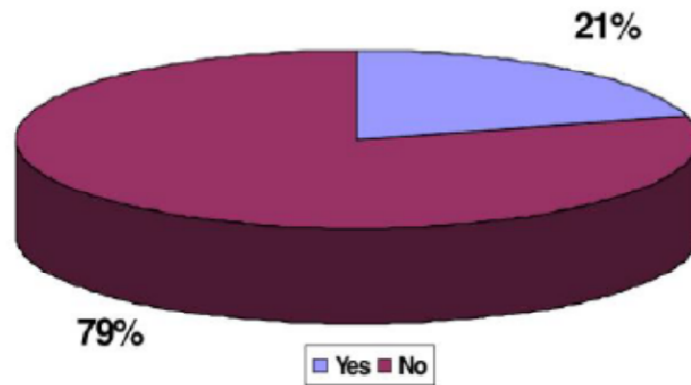


Interpretation:

From the above graph 71% preferred Growth Option, 21% preferred Divident payout and 8% preferred Divident Reinvestment Option.

3.13.Preference of Investors whether to invest in Sectoral Funds

Response	No. of Respondents
YES	25
NO	95



Interpretation:

Out of 120 investors, 79% investors do not prefer to invest in Sectoral Fund because there is maximum risk and 21% prefer to invest in Sectoral Fund.

FINDINGS:

- In Andhra Pradesh in the Age Group of 36-40 years were more in numbers. The second most Investors were in the age group of 41-45 years and the least were in the age group of below 30 years.
- In Andhra Pradesh most of the Investors were Graduate or Post Graduate and below HSC there were very few in numbers.
- In family Income group, between Rs.20,001-30,000 were more in numbers, the second most were in the Income group of more than Rs.30,000 and the least were in the group of below Rs.10,000.

- About all the Respondents had a saving A/c in bank , 76% Invested in Fixed Deposits, only 60% Respondents invested in Mutual Fund.
- Mostly Respondents preferred High Return while investment, the second most preferred Low Risk then liquidity and the least preferred Trust.
- Only 67% Respondents were aware about Mutual Fund and its operations and 33% were not.
- Among 200 Respondents only 60% had invested in Mutual Fund and 40% did not have invested in Mutual Fund.
- Out of 80 Respondents 81% were not aware of Mutual Fund, 13% told there is not any specific reason for not invested in Mutual Fund and 6% told there is likely to be higher risk in Mutual Fund.
- Most of the Investors had invested in Reliance or UTI Mutual Fund, ICICI Prudential has also good Brand Position among investors, SBIMF places after ICICI Prudential according to the Respondents.
- For Future investment the maximum Respondents preferred Reliance Mutual Fund, the Second most preferred ICICI Prudential, SBIMF has been preferred after them.
- 60% Investors preferred to Invest through Financial Advisors, 25% through AMC (means Direct Investment) and 15% through Bank.
- 65% preferred One Time Investment and 35% preferred SIP out of both type of Mode of Investment.
- The most preferred Portfolio was Equity, the second most was Balance (mixture of both equity and debt), and the least preferred Portfolio was Debt Portfolio.
- Maximum Number of Investors Preferred Growth Option for returns, the second most preferred Divident Payout and then Dividend Reinvestment.
- Most of the investors did not want to invest in Sectoral Fund, only 21% wanted to invest in Sectoral Fund.

CONCLUSIONS:

Running a successful Mutual Fund requires complete understanding of the peculiarities of the Indian Stock Market and also the psyche of the small investors. This study has made an attempt to understand the financial behavior of Mutual Fund investors in connection with the preferences of Brand (AMC), Products, Channels etc. I observed that many of people have fear of Mutual Fund. They think their money will not be secure in Mutual Fund. They need the knowledge of Mutual Fund and its related terms. Many of people do not have invested in mutual Fund due to lack of awareness although they have money to invest. As the awareness and income is growing the number of mutual fund investors are also growing.

“Brand” plays important role for the investment. People invest in those Companies where they have faith or they are well known with them. Some AMCs are not performing well although some of the schemes of them are giving good return because of not awareness about Brand. Reliance, UTI, SBIMF, ICICI Prudential etc. they are well known Brand, they are performing well and their Assets Under Management is larger than others whose Brand name are not well known like Principle, Sunderam, etc.

Distribution channels are also important for the investment in mutual fund. Financial Advisor are the most preferred channel for the investment in mutual fund. They can change investors’ mind from one investment option to others. Many of investors directly invest their money through AMC because they do not have to pay entry load. Only those people invest directly who know well about mutual fund and its operations and those have time.

SUGGESTIONS AND RECOMMENDATIONS:

- The most vital problem spotted is of ignorance. Investors should be made aware of the benefits. Nobody will invest until and unless he is fully convinced. Investors should be made to realize that ignorance to no longer bliss and what they are losing by not investing.
- Mutual funds offer a lot of benefit which no other single option could offer. But most of the people are not even aware of what actually a mutual fund is? They only see it as just another investment option. So the advisor should try to change their midsets. The advisors should target for more and more young investors. Young investors as well as persons at the height of their career would like to go for advisors due to lack of expertise and time.
- Mutual Fund Company needs to give the training of the Individual Financial Advisors about the Fund/Scheme and its objective, because they are the main source to influence the investors.
- Before making any investment Financial Advisors should first enquire about the risk tolerance of the investors/customers, their need and time (how long they want to invest). By considering these three things they can take the customers into consideration.
- Younger people aged under 35 will be a key new customer group into the future, so making greater efforts with younger customers who show some interest in investing should pay off.

- Customers with graduate level education are easier to sell to and there is a large untapped market there. To succeed however, advisors must provide sound advice and high quality.
- Systematic Investment Plan (SIP) is one the innovative products launched by Assets Management companies very recently in industry. SIP is easy for monthly salaried person as it provides the facility of do the investment in EMI. Though most of the prospects and potential investors are not aware about the SIP. There is a large scope for the companies to tap the salaried persons.

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