

Empirical Investigation on Bonds Mutual Funds and their Influence due to National Economic Event

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Abstract

The study is designed to find the alliance between the two factors; Mutual fund and a National Economic Event held on 16th August 2013 when RBI had announced stringent measures which included curbs on Indian companies investing abroad and placing fresh curbs on gold imports with the express objective of reining in a widening current account deficit(CAD) and to stabilize the rupee at reasonable levels by restricting dollar outflows. The paper explains the concept of Mutual fund and the importance of their existence according to SEBI. Covering Importance of saving in form of mutual funds, which benefits to small investors, who cannot easily invest in the capital market in reference to Organization Structure of Mutual Funds of Public Sector Banks and Mutual fund Companies. The Research lays platform to explore if there would be a significant difference between average performance of various five star mutual funds NAV before and after the occurrence of the event or NOT.

Using various tools on the secondary data obtained by Mutual funds fact sheets and Mutual funds magazines which is carried out to help Investors in taking decision where and what to invest in and formulate their strategies to make the best use of their savings in Mutual funds.

Keywords: Mutual Fund Companies, RBI, Mutual Funds, Public Sector Banks Mutual Funds

Introduction

A mutual fund is an investment company or trust that pools the resources from thousands of its shareholders or unit holders who share the common investment goal and then diversifies its investments into different types of securities in order to provide potential returns and reasonable safety. In the period of globalization rapid price fluctuations are occurring for the assets like equity shares, bonds, real estate, derivatives, etc., Secondly, an individual also finds it difficult to keep track of ownership of his assets, investments, brokerage dues and bank transactions, etc.

In this context, a mutual fund is the solution to all these situations. Mutual funds help the small and medium size investors to participate in today's complex and modern financial state. Investors can take part in the mutual fund by buying the units of the fund. The income received through these investments and the capital appreciation realized by the schemes is shared by its unit holders in proportion to the number of units owned by them.

Mutual funds play a vital role in mobilizing of resources and their useful allocation. These funds play a significant role in financial inter-mediation, growth of capital markets and development of the financial sector as a whole. The active participation of mutual funds in economic development can be seen by their dominant presence in the money and capital market.

Organization Structure of Mutual Fund Company

"The mutual funds can be organized in two ways. One, the Trust structure and the other, the Company structure. In each these structures, there is an entity, that undertakes the designing and selling of schemes, raises cash from the general public under the schemes and manages the money on behalf of its owners. This entity is that the fund manager or an Asset Management Company (AMC) to segregate the collected funds from this entity's own funds, the corpus is situated in a legal vehicle. It is the nature of this legal vehicle that determines the character of the Fund itself.

Organization Structure of Indian Mutual Funds

There are four constituents of a mutual fund in India

1. The Sponsor
2. The Board of Trustees or Trustee Company
3. The Asset Management Company and
4. The Custodian

The sponsor is the Settler of the Trust, which holds Trust property on behalf of investors who are the beneficiaries of the Trust. The sponsor is additionally needed to contribute at least 40% of the capital of the asset management company, which is to make for managing the assets of the trust. The assets of the Trust comprise of the properties of the schemes, which are floated by the asset management company with the approval of the Trustees. Schemes may have different uniqueness - they may be open, closed ended, or may have a particular investment focus or portfolio structure. Finally, the safe custody of assets of the Trust is entrusted to one or additional custodians.

Organization Structure of Mutual Funds of Public Sector Banks

"When the public sector banks were allowed to set up mutual funds, the first mutual fund was set up by the State Bank of India in 1987 prior to the establishment of SEBI. State Bank of India preferred to take the Trust route and fix up the mutual fund as a Trust under the Indian Trust Act 1882. Other mutual funds followed suit and thus Trusts set up under the Indian Trusts Act came to be the adopted legal form of mutual funds in India. The author or Settler of the Trust came to be Principal Trustee and functioned as the fund manager.

"These mutual funds combined the role of Trustee, fund manager and custodian in the sponsoring bank." Other mutual funds that were set up later adopted the same pattern and thus, over time, Trusts set up under the Indian Trusts Act became the accepted legal form for establishment of Mutual Funds in India. The author or Settler of the Trust became the principal Trustee and functioned as the fund manager. With the establishment of SEBI under the SEBI Act, 1992, mutual funds other than the UTI, were for the first time brought under the regulatory purview of SEBI.

"SEBI, while framing the Mutual Fund Regulations, gave plenty of thoughts to two major factors, one, that mutual funds collect large amounts of money from the public for investment in a dynamic market place which require specialization on the part of persons performing these functions. Secondly, there could arise potential conflicts of interest, which were to be avoided by ensuring the arm's length relationship between various functionaries

Literature Review

The capital asset pricing model has been used to compare risk-adjusted returns of funds with that of a benchmark market portfolio. Hence, savings are the important part of life & due care should be taken whenever we are thinking of investment. Therefore, proper analysis should be done whenever a person is investing in a market. (1).

It is further emphasized that the proper evaluation of various essential factors, that puts impact on the operation of mutual fund industry, should be done. Mutual fund analysis has become a thrust area of research for various researchers and academicians.

Many researchers have contributed towards exploration of this area of research. Still, many questions arise in the mind of an analyst or researcher as to why do different mutual funds under the same asset management company has varying NAV? (2)

The focus should be on proper evaluation techniques for evaluating various schemes to obtain the best possible return with less risk. Only through full and complete evaluation techniques can unit holders feel confident that the mutual fund in which they have invested their hard-earned money is being operated with their best interests in mind. (3)

The investment performance of India's first seven years closed equity mutual fund master share reveals the same impact with reference to the evaluation of performance of mutual fund industry in India. There are significant changes in the economic environment, political environment, rapid technological innovation, changes in the business economics of audit firms and financial analysts, and the globalization of capital markets. These changes have the potential to alter the performance of mutual fund, creating new opportunities for research (4)

Financial performance of five close-ended growth funds for the period February 1991 to August 1993 concluded that the performance was below average. Day by day the concept of investment in mutual fund and its performance are also changing. Now, emphasis is laid on the qualitative aspect of event base performance of mutual fund, which is relevant to capital market volatility and mutual fund asset under management. (5)

The performance of two schemes during the period, June 1992 to March 1994 in terms of returns/benchmark comparison, diversification, selection and market timing skills. Researcher founded that the schemes failed to perform better than the market portfolio. Event wise performance analysis allows a mutual fund to demonstrate how it meets the challenge of sustainability and to show the improvement it has made on specific events. (6).

The mutual fund industry performed well during the period 1992-1996. The performance was evaluated in terms of benchmark comparison, performance from one period to the next and their risk-return characteristics. (7).

Various studies had been conducted on the performance evaluation of different mutual fund schemes in India. (8, 9, 10, 11, 12, 13, 14)

The above studies have pinpointed on the performance of the mutual funds in a very general way. Till date, no study has been seen in the event wise evaluation and performance of mutual fund in relation to Asset under Management and NAV.

Research Design & Methodology

This research will aim on the evaluation of growth and performance of mutual funds through evaluating Net Asset Value.

Hypothesis:

H0-There would be no significant difference between average performance of various five star mutual funds NAV before and after the occurrence of the event

H1-There would be a significant difference between average performance of various five star mutual funds NAV before and after the occurrence of the event.

Research Problem

The general intend of this study is to investigate the effect of an event that interns influences the Mutual Fund.

Approaches

The study is based on the empirical investigation on the performance of Mutual Fund schemes as the research is data based and the researcher will investigate on the pre-defined hypothesis and thereafter will draw conclusion and predictions. Data for such analyses will be collected through Mutual Fund Fact sheets and magazines related to Mutual Funds (Mutual Fund Insight). Further, the data will be analysed and evaluated through tools mentioned in Research Methodology.

Type of Research

The study is based on the empirical investigation on the performance of Mutual Fund schemes.

Types of data: - As per the purpose and scope of evaluation, availability of time and statistical tools required the type of data selected for the research is Secondary type

Source List

The data are collected based on secondary sources. It includes the mutual fund fact sheets and magazine the –Mutual Fund Insight. In addition to these, others journals, magazines, articles, books and the published and unpublished documents related to the mutual funds is considered in the research.

Significance of Research

Mutual funds offer tailor-made solutions like systematic investment plans and systematic withdrawal plans to investors, which is very convenient for investors. Investors also do not have to worry about investment decisions; they do not have to deal with brokerage or depository, etc. for buying or selling of securities. Mutual funds also offer specialized schemes like retirement plans, children’s plans, industry specific schemes, etc. to suit personal preference of investors. These schemes also help small investors with an asset allocation of their corpus. This study tries to shed some light on how economic factors contribute to the Mutual Fund NAV dynamics in national markets. We propose the hypothesis. There would be a significant difference between average performance of various five star mutual funds NAV before and after the occurrence of the economic national event.

Schemes to be selected for analysis

- 1) ICICI Prudential Income Opportunities Fund - Direct Plan – Growth
- 2) HDFC Income Fund-Growth Option
- 3) DSPBR Government Securities Fund - Regular – Growth
- 4) Baroda Pioneer Income Fund - Plan A Growth

Analysis of the MF Schemes through SPSS

1) ICICI Prudential Income Opportunities Fund - Direct Plan – Growth

T-TEST PAIRS = Icici pru income opp before WITH Icici pru income opp after (PAIRED) /CRITERIA=CI(.9500) /MISSING=ANALYSIS.

T-Test

[DataSet0] Table-1

	Mean	N	Std. Deviation	Std. Error Mean
Pair 1 Icici income before	16.0540	21	.10875	.02373
Icici income after	15.9030	21	.20668	.04510

Paired Samples Correlations

	N	Correlation	Sig.
Pair 1 Icici income before & Icici income after	21	.072	.757

Paired Samples Test

	Paired Differences		
	Mean	Std. Deviation	Std. Error Mean
Pair 1 Icici income before – Icici income after	.15094	.22651	.04943

Paired Samples Test

		Paired Differences	
		95% Confidence Interval of the Difference	
		Lower	Upper
Pair 1	Icici income before – Icici income after	.04783	.25405

Paired Samples Test

		t	df	Sig. (2-tailed)
Pair 1	Icici income before – Icici income after	3.054	20	.006

2) HDFC Income Fund-Growth Option

T-TEST PAIRS= hdfc income before WITH hdfc income after (PAIRED) /CRITERIA=CI(.9500) /MISSING = ANALYSIS.

T-Test

[DataSet0] Table-2

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Hdfc income before	26.7446	21	.21349	.04659
	Hdfc income after	26.3662	21	.32918	.07183

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Hdfc income before & hdfc income after	21	-.190	.409

Paired Samples Test

		Paired Differences		
		Mean	Std. Deviation	Std. Error Mean
		Pair 1	Hdfc income before – hdfc income after	.37840

Paired Samples Test

		Paired Differences	
		95% Confidence Interval of the Difference	
		Lower	Upper
Pair 1	Hdfc income before – hdfc income after	.18491	.57189

Paired Samples Test

		t	df	Sig. (2-tailed)
Pair 1	Hdfc income before – hdfc income after	4.079	20	.001

3) DSPBR Government Securities Fund - Regular - Growth

T-TEST PAIRS=dsp govt sec before WITH dsp govt sec after (PAIRED) /CRITERIA=CI(.9500) /MISSING=ANALYSIS.

T-Test

[DataSet0] Table-3

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Dsp govt sec before	38.5441	21	.26280	.05735
	Dsp govt sec after	38.1289	21	.23064	.05033

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Dsp govt sec before & dsp govt sec after	21	-.406	.068

Paired Samples Test

		Paired Differences		
		Mean	Std. Deviation	Std. Error Mean
Pair 1	Dsp govt sec before – dsp govt sec after	.41520	.41409	.09036

Paired Samples Test

		Paired Differences	
		95% Confidence Interval of the Difference	
		Lower	Upper
Pair 1	Dsp govt sec before – dsp govt sec after	.22671	.60370

Paired Samples Test

		Paired Differences		
		t	df	Sig. (2-tailed)
Pair 1	Dsp govt sec before – dsp govt sec after	4.595	20	.000

4) Baroda Pioneer Income Fund - Plan A Growth

T-TEST PAIRS= Baroda pio inc before WITH Baroda pio inc after (PAIRED)
/CRITERIA=CI(.9500) /MISSING=ANALYSIS.

T-Test

[DataSet0] Table-4

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Baroda pio inc before	18.4106	21	.14086	.03074
	Baroda pio inc after	18.2817	21	.20357	.04442

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Baroda pio inc before & Baroda pio inc after	21	-.315	.164

Paired Samples Test

		Paired Differences		
		Mean	Std. Deviation	Std. Error Mean
Pair 1	Baroda pio inc before – Baroda pio inc after	.12897	.28169	.06147

Paired Samples Test

		Paired Differences	
		95% Confidence Interval of the Difference	
		Lower	Upper
Pair 1	Baroda pio inc before – Baroda pio inc after	.00074	.25719

Paired Samples Test

		t	df	Sig. (2-tailed)
Pair 1	Baroda pio inc before – Baroda pio inc after	2.098	20	.049

Findings

In the table-1, the P value (.006) is less than the level of significance so Null Hypothesis is rejected, alternative hypothesis is accepted, and we can conclude that the impact on the NAV is affected by the economic event.

In the table-2, the P value (.001) is less than the level of significance so Null Hypothesis is rejected, alternative hypothesis is accepted, and we can conclude that the impact on the NAV is affected by the economic event.

In the table-3, the P value (.000) is less than the level of significance so Null Hypothesis is rejected, alternative hypothesis is accepted, and we can conclude that the impact on the NAV is affected by the economic event.

In the table-4, the P value (.049) is less than the level of significance so Null Hypothesis is rejected, alternative hypothesis is accepted, and we can conclude that the impact on the NAV is affected by the economic event.

Conclusion

The study will definitely help the investors in deciding the various schemes of mutual funds with regard to investors and it will help in knowing the various important factors affecting the performance of mutual funds industry. Hence, the study shows a significant difference between average performance of mutual funds NAV before and after occurring of the event.

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