

Research Paper

**ANALYTICAL STUDY OF RISK AND RETURN OF SELECTED
SCHEMES OF MUTUAL FUND**

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Abstract:

Mutual Fund is one of the major financial instruments of the economy. Performance of the Mutual Fund Industry is always the main issue in the front of regulators & ultimately common investors. The risk in Mutual Fund redirects the ordinary investors from the investment in Mutual Fund. This research paper is attempts to study & analyses the Risk & Return of the selected schemes of the Mutual fund. Researcher has identified some parameters to analyses of return & risk of the Mutual Fund.

Keywords : Mutual Fund, Risk of Mutual Fund.

INTRODUCTION

Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. Each scheme of a mutual fund can have different character and objectives. Mutual funds issue units to the investors, which represent an equitable right in the assets of the mutual fund. The money thus collected is then invested in capital market instruments such as shares, debentures

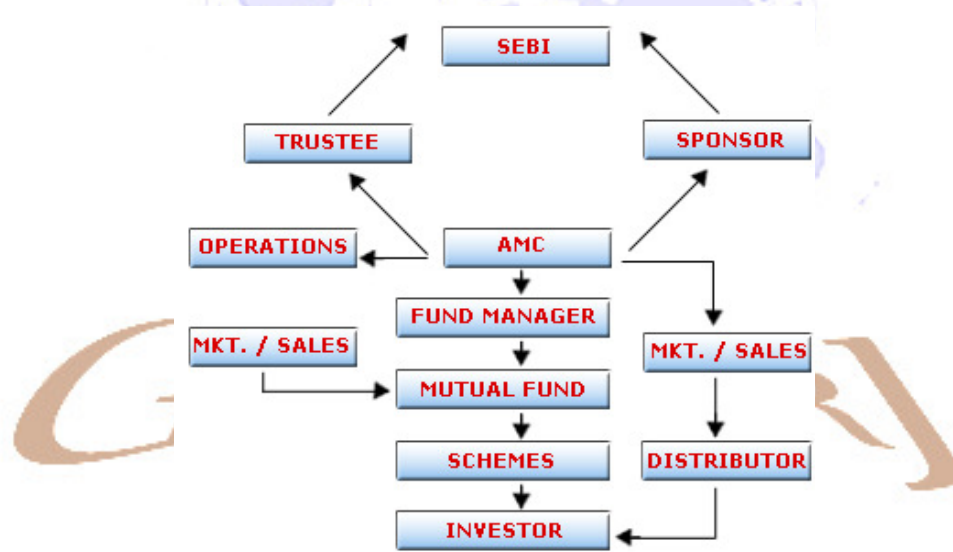
and other securities. The income earned through these investments and the capital appreciation realized is shared by its unit holders in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

DEFINITION & SETUP OF MUTUAL FUND:

In “Mutual Fund Book”, published by Investment company of U.S., “A Mutual Fund is a financial service organization that receives money from shareholders, invest it, earns returns on it, attempts to make it grows and aggress to pay the share holders cash on demand for the current value of his “investment”. The investment managers of the funds manage these savings in such a way that the risk is minimized and steady return is ensured.

THEORETICAL FRAMEWORK:

Mutual fund structure :



Common objectives of clients while investing in mutual funds:

(1) **Safety of funds: -**

The investment should be preserved, not be lost and remain in a returnable position in cash or kind.

(2) **Liquidity: -**

The portfolio must consist of such securities, which could be encased without any difficulty or involvement of time to meet urgent need for funds. Marketability ensures

liquidity to the portfolio.

(3) Reasonable return: -

The investment should earn a reasonable return to upkeep the declining value of money and be compatible with opportunity cost of the money in terms of current income in the form of interest or dividend.

(4) Appreciation in capital: -

The money invested in portfolio should grow and result into capital gains

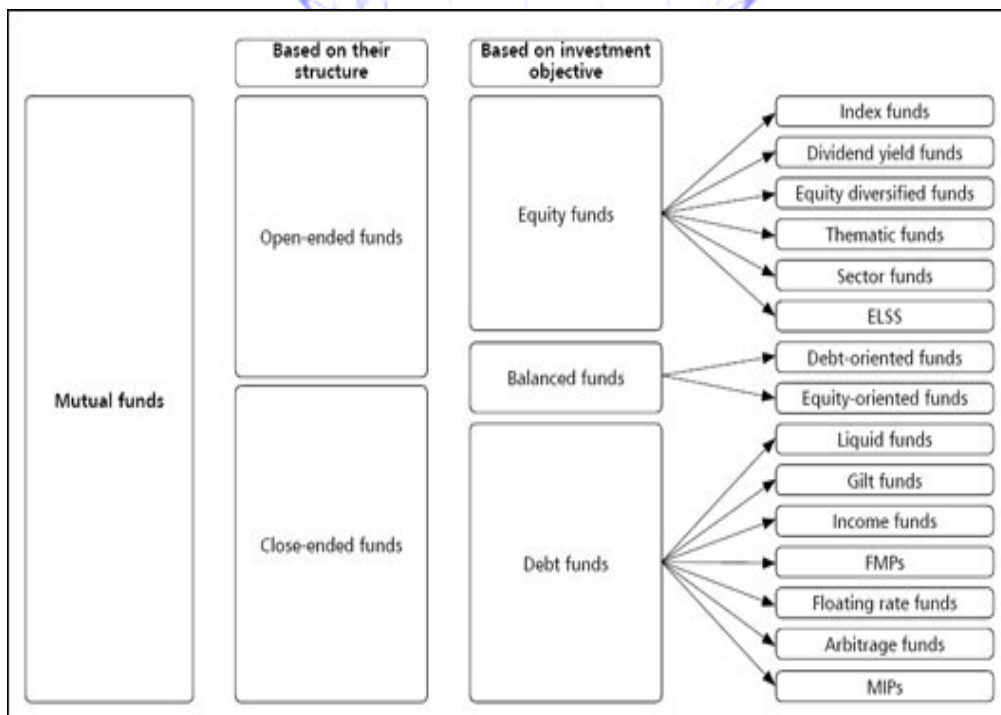
(5) Tax planning: -

Efficient portfolio management is concerned with composite tax planning covering income tax, capital gains tax, wealth tax, and gift tax.

(6) Risk avoidance: -

Risk avoidance and minimization of risk are important objectives of portfolio management. Portfolio managers achieve these objectives by effective investment planning and periodical review of the market situation and economic environment affecting the financial market.

Types of Mutual Funds:



About the Industry

Definition:

Mutual Fund is a pool of money, collected from investors, and is invested according to certain investment objective.

Mutual Fund is the pooling of Money from the retail investors to the corporate investor's for Sustainable growth of the investments.

Introduction:-

A Mutual Fund is a pool of money, collected from investors, and is invested according to certain investment objectives with a common financial goal. A Mutual Fund is created when investors put their money together. The most important characteristic of a mutual fund is that the contributors and the beneficiaries of the fund are the same class of people, namely the investors.

The money thus collected is invested by the fund manager in different type of securities depending upon the objective of the scheme. These could range from shares to debentures to money market instruments. The income earned by these instruments and the capital appreciation realized by the scheme are shared by its unit holders in proportion to the number of units owned by them. 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 portfolio at a relatively low cost. Each Mutual Fund scheme has a defined investment objective and strategy.

Characteristics:

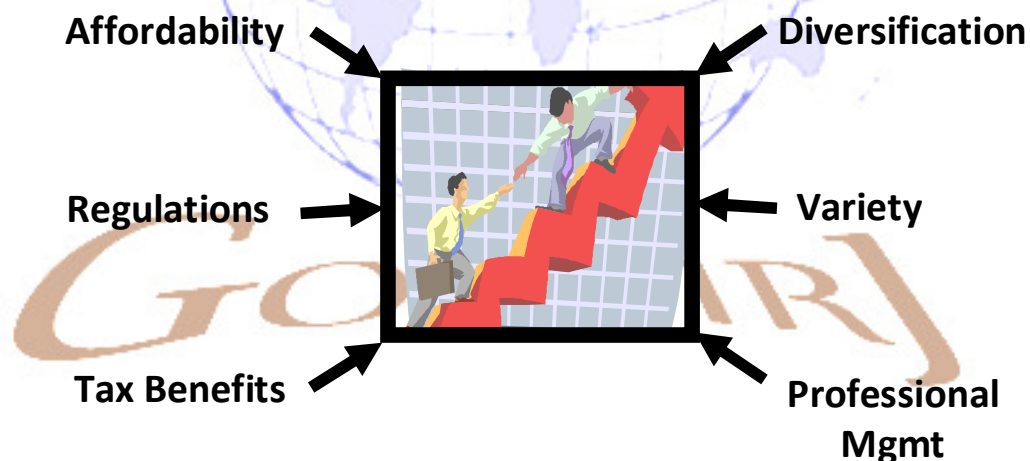
- A mutual fund actually belongs to the investors who have pooled their funds.
- A mutual fund is managed by investment professionals and other service providers, who earn a fee for their services, from the fund.
- The pool of funds is invested in a portfolio of marketable investments. The value of the portfolio is updated every day.
- The investor's share in the fund is denominated by 'units'. The value of the units changes with change in the portfolio's value, every day.

Risk Associated With Mutual Fund:-

- **Interest Rate Risk** Bond price move inversely to changes in interest rate. If interest rate go up bond price come down and vice-versa changes in bond price will affect the NAV of income funds since NAV is compiled on a daily basis, the effect of interest rate fluctuation will get reflected in the NAV.

- **Liquidity Risk** This refers to at which security can be sold at or near its true value. The primary assessment of liquidity risk is the spread between the bid price and the offer price quoted by dealer.
- **Credit Risk** Credit risk or default risk refers to the risk that on investors of a fixed income security may default. Because of the risk, debentures are sold at a fixed spread above these offered a treasury security, which are considered as risk free. Normally, fixed income security will fluctuate depending upon the actual changes in the provided level of credit risk and actual event of default.
- **Market Risk** The prices of shares are subject to wide price fluctuations depending upon market conditions over which nobody has a control. Moreover, every economy has to pass through a cycle-Boom, Recession, Slump and Recovery. The phase of the business cycle affects the market conditions to a larger extent.

ADVANTAGES OF MUTUAL FUND



Facts about Mutual Fund

Equity instruments like shares form only a part of securities held by Mutual Funds. Mutual Fund also invests in debt market, which is relatively much safer.

The biggest advantage of Mutual Funds is their ability to diversify the risk.

Mutual Funds exist in India since 1963. Mutual Fund market is much evolved in India and they're for last 60years.

Mutual Fund the best solutions for the people who want to manage their risk and get good returns.

The size of Mutual Fund market in India is Rs. 107728 crores.

According to the SEBI-NCAER survey of Indian Investor about 15 million of 8.7% of households have invested in Mutual Funds and about 23 millions are unit holders in India.

US-64 is very much a part of the market and is not immune to vagaries. The crisis has arisen due to mismanagement of funds.

RESEARCH METHODOLOGY

MEANING OF RESEARCH:

Research in common parlance refers to a search for knowledge. One can also define research as a scientific and systematic search for pertinent information on a specific topic. In fact, research is an art of scientific investigation.

According to Advanced Learner's Dictionary,

“A careful investigation or inquiry specially though search for new facts in any branch of knowledge.”

Some people consider research as a movement, a movement from the known to the unknown. It is actually a voyage of discovery. Research is an academic activity and as such the term should be used in a technical sense.

Research Process:

- ✓ Formulating the Research Problem
- ✓ Extensive Literature Survey
- ✓ Preparing the research design
- ✓ Determining the sample design
- ✓ Data Collection & Analysis
- ✓ Finding & Suggestion
- ✓ Conclusion

OBJECTIVES

- To understand various types of mutual funds offered by the Industry.
- To understand the risks factors associated with mutual funds.
- To Study the performance of funds.
- To suggest the appropriate move for Investment.

AIM OF THE STUDY

The main objective behind this study is to learn about the industry to conduct an extensive study of different schemes and portfolios managed by Asset Management Companies (AMC's) in view to understand risk & return.

THE RESEARCH DESIGN:

The formidable problem that follows task of defining the research problem is the preparation of the design of the research project, popularly known as "Research Design." Decision regarding what, where, when, how much, by what means concerning an inquiry or a research study constitute a research design.

DATA COLLECTION

The task of data collection begins after a research problem has been defined and research design plan chalked out. The researcher should keep in mind two types of data viz. Primary and secondary data.

Primary data means those which collected afresh and for the first time, and thus happen to be original in character.

The secondary data are those which have already been collected by someone else and which have already been passed through the statistical process.

Data collection methods:

The study is based on both primary and secondary data and examines the trading mechanism in stock market. The results are drawn mainly from secondary data collected.

Primary data:

Primary data has been collected from the AMC by discussion with Fund Manager, Research Team etc .

Secondary data:

Secondary data has been collected from various sources such as:

- Mutual Fund Factsheet
- Key Information Memorandum
- Publications of the company
- Business magazines
- Journals, text books

- Websites
- Annual reports

In order to gain information on current practices and problems, the area chosen for study are the emerging and competitive companies in and around Pune City.

a) **Research Design :**

A Research Design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research design is the conceptual structure within which research is conducted. It constitutes the blueprint for the collection, measurement and analysis of data. As such the design includes an outline of what the researcher will do from writing the hypothesis and its operational implications to the final analysis of data.

- b) **Universe:** 45 Mutual Fund Companies
- c) **Sampling Method:** Non probability convenience sampling method
- d) **Sample Size:** 5 Schemes of Mutual Fund Company's
- e) **Data Source:** Secondary data

Data Collection :

Scheme No.1: ICICI Prudential Dynamic Plan

1) **Investment Policy-**

Scheme Name- ICICI Prudential Dynamic Plan

Inception Date- 31/10/2002

Objectives : Medium term investment of funds having potential for capital appreciation by managing cash and equity portfolio

Fund Size - 3885.34 Crores

- a) **Portfolio as on Apr 30, 2013**

Fund Manager –

- a) **Name : Sankaran Naren**

(Managing this fund since Feb, 2012 & Overall 22 years of experience Fund Management, Equity Research, Operations etc.)

Name : **Mittul Kalawadia**

(Managing this fund since Feb, 2012 & Overall 7 years of experience of which 4 years as equity analyst)

Plans: Regular & Growth

Fund Performance -

Date	Scheme Return	Benchmark Return	NAV Mar28,2013
Mar 31,2012 To Mar31, 2013	4.17	7.31	106.13
Mar 31,2011 To Mar31, 2012	-2.85	-9.23	109.25
Mar 31,2010 To Mar31, 2011	14.67	11.14	95.27

Quantitative Measures:

Average P/E : 11.80	Average P/BV : 1.92	Avg. Dividend Yield : 1.91	Annual Portfolio Turnover Ratio : 1.24 times
Std Dev (Annualised) : 15.83	Sharpe Ratio : -0.06	Portfolio Beta : 0.79	R squared : 0.91

Scheme No.2

Scheme Name – HDFC TOP 200 FUNDS

Inception Date – 11th October 1996

Objectives – To generate long term capital appreciation from a portfolio of equity and equity – linked instruments primarily drawn from the companies in BSE 200 index.

Fund Size (Rs in Lacs) – 11,201,685.83

Fund Manager – Prashant Jain

Industry Allocation of Equity Holding (% of Net Assets)

HDFC Top 200 Fund Performance -

SIP Investments	Since Inception (Oct 11, 96)	15 Year SIP	10 Year SIP	5 Year SIP	3 Year SIP	1 Year SIP
Total amt invested (Rs.'000)	189.00	180.00	120.00	60.00	36.00	12.00
Mkt. Value as on today	1505.95	1294.87	399.69	77.89	37.69	12.39
Returns (%)	23.29	23.43	22.77	10.40	3.00	6.07
Benchmark Returns (%)	14.05	14.24	13.91	4.43	-0.78	4.18

Quantitative Measures –

	Std Deviation	Beta	Sharpe Ratio*
Risk Ratio (for the 3-yr period ended Apr 30,13) Based on month-end NAV	5.61 %	0.9799	-0.003

Scheme No. 3

Scheme Name – IDFC Classic EQUITY FUND

Inception Date – 9 August 2005

Fund Manager – Mr. Ankur Arora (w.e.f.14 Mar, 2012)

Objective – IDFC Classic Equity Fund is a diversified equity fund which invests across the breadth of the market .It is a portfolio that blends the best of our large and midcap ideas.

Fund Size – Rs.150.96 Crores

Fund Performance –

Period	Scheme Returns	Benchmark Returns
Aug 09, 2005 (Since Inception)	10.27%	11.63%
Mar 30, 2012 To Mar 28, 2013	12.61%	6.03%
Mar 31, 2011 To Mar 28, 2012	-10.21%	-9.28%
Mar 30, 2010 To Mar 28, 2011	4.77%	8.15%

Other Parameter –

Beta	4.84%
R Square	0.93
Standard Deviation	4.84%
Sharpe Ratio	0.89

Scheme No. 4

Scheme Name – RELIANCE VISION FUND

Type – Open Ended Equity Growth Scheme

Inception Date – 8-Oct -1995

Fund Size – Rs.1, 769.25 Crores (31/3/2013)

Objective – The primary investment objective of the scheme is to achieve long-term growth of capital by investment in equity and equity related securities through a research based investment approach.

Fund Manager – Ashwani Kumar

Fund Performance As On 28/3/2013 -

Date	NAV Per Unit	Scheme Return	Benchmark Return
Since inception Till March 28,2013	10.0000	19.86	10.77
March 28, 2012 To March 28,2013	246.2204	-3.59	9.01
March 28, 2011 To March 28,2012	262.6187	-6.24	-8.78
March 28, 2010 To March 28,2011	252.6407	3.95	5.10

Volatility Measures –

Beta	0.9224
Standard Deviation	2.6624%
R Squared	0.8509
Sharpe Ratio	-0.0315
Portfolio Turnover Ratio	0.85

Scheme No.5

Scheme Name – TATA MONEY MARKET FUND

Nature Of the scheme - An Open Ended Money Market Scheme

Objective – To create a highly liquid portfolio of money market instruments so as to provide reasonable returns and high liquidity to the unit holders

Fund Performance –

Date	Scheme Return in Rs.	Benchmark Return
March 31, 2012 To March 31,2013	10,817	8.17%
March 31, 2011 To March 31,2012	10,844	8.44%
March 31, 2010 To March 31,2011	10,621	6.21%

Quantitative Indicators –

Std. Deviation (Annualised)	0.48
Portfolio Beta	1.28
R Squared	0.91
Treynor	0.05
Jenson	0.06

Findings -

On the basis of Performance -

- 1) ICICI Dynamic Plan has given return less than Benchmark Return i.e. 4.17% is a Scheme return and 7.31 % is a Benchmark return. So level of risk in this scheme is high.
- 2) HDFC Top 200 Plan has given return more than Benchmark Return i.e. 23.29% is a Scheme return and 14.05 % is Benchmark return. So level of risk in this scheme is very low.
- 3) IDFC Classic Fund has given return less than Benchmark Return i.e. 10.27% is a Scheme return and 11.63 % is a Benchmark return. So level of risk in this scheme is high.
- 4) Reliance Fund has given return more than Benchmark Return i.e. 19.86% is a Scheme return and 10.77 % is Benchmark return. So level of risk in this scheme is low.
- 5) TATA Fund has given return more than Benchmark Return i.e. 10.81% is a Scheme return and 8.77 % is Benchmark return. So level of risk in this scheme is low.

On the basis of risk –

- 1) In ICICI Dynamic Plan Standard Deviation is 15.83, Beta is 0.79, it indicates that more is the standard deviation more is the risk because the total risk is measured by std.deviation. Beta measures only the market risk. So level of risk in this scheme is high.
- 2) In HDFC Top 200 Fund Standard Deviation is 5.61%, Beta is 0.97, it indicates that in this scheme there is low standard deviation. And beta is close to 1 so level of risk in this scheme is very low.
- 3) In IDFC Classic Fund Standard Deviation is 4.84%, Beta is 0.87, it indicates that in this scheme there is low standard deviation. And beta is close to 1 so level of risk in this scheme is very low.
- 4) In Reliance Vision Fund Standard Deviation is 2.6624%, Beta is 0.92, it indicates that in this scheme there is low standard deviation. And beta is close to 1 so level of risk in this scheme is very low.
- 5) In TATA Money Market Fund Standard Deviation is 0.48%, Beta is 0.28, and it indicates that in this scheme there is low standard deviation. And beta is close to 1 so level of risk in this scheme is very low.

On the basis of risk we can say that, more is the standard deviation more is the risk because the total risk is measured by std.deviation. Beta measures only the market risk. If beta is more than 1 or close to 1 it indicates that fund is giving more return than benchmark return.

Suggestions:

- 1) In India most of the people are income middle level they cannot invest heavy amount. So mutual fund is right investment for such people
- 2) The company should come up in the future with some more schemes in such a way that should give returns, safe and liquidity so that the investors should get better confidence & believe it.
- 3) In the share market lot of fluctuations will be present so in mutual fund they have average better returns, so that the investors will be safe.
- 4) In the present scenario customer needs good returns and the investment should be safe, liquidity. These three terms should be present.
- 5) A through market research is to be done by the Mutual Fund companies before they launch any schemes. They should understand the need of the customers (i.e., investment plan and the purpose) and Taylor accordingly.

- 6) The investor should always make an analysis of existing investment options before investing his money. This analysis will help investor to understand the risk and return of a particular investment option.
- 7) It is important to select the fund carefully. The performance of the mutual fund over a long time horizon should be taken into consideration.
- 8) Mutual fund plays a vital role in Personal financial planning of investor as the working professionals don't have time as well as knowledge to rebalance their portfolio as per the changing and volatile market, so the mutual fund is the best option available for catering their needs and requirements of good return, saving, investment, and minimum risk.

Conclusion:

Mutual Fund has emerged best financial intermediary in Indian Financial market which channelized the saving from different kind of investors. The growth & prospects is more dependents on the path breaking performance of Mutual Fund with digestible risk for the investors. The company in Mutual Fund has to attract to investors by returns & low risk only. This paper has given insight to AMC & common investors to see different parameters which focus on the risk & return.

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