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A COMPARATIVE PERFORMANCE ANALYSIS OF EQUITY MUTUAL FUNDS: EVALUATING RISK-ADJUSTED RETURNS WITH REFERENCE TO HDFC

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ABSTRACT

Everyone has their own unique set of investment objectives. Even if some people value stability above all else, others may place a higher value on returns as a whole. While some people may be saving for retirement or the traditional "rainy day," others may be thinking about how to pay for their children's college tuition. The goods needed will obviously differ when aims defy any range.

The Indian mutual fund business caters to a wide range of investors with its extensive scheme offerings. Equity, debt, liquid, gilt, and balanced funds are all part of the product portfolio. Another option is to look for a fund that caters specifically to a certain age group, size, or kind of investment. Furthermore, investors will not lose their hard-earned money due to fraud since a legally binding framework has sufficient teeth to protect investors' interests. Overall, their advantages transcend investor categories, making them appealing to a wide range of people.

All types of investors have the choice of investing independently in different possibilities, but mutual funds provide the best of both worlds because of the convenience they provide. The mutual fund sector is always innovating new plans, schemes, and alternatives to meet the demands of investors in terms of liquidity, dividend frequency, and rate of return.

The increasing level of competition in the mutual fund market made it imperative to learn how investors perceive mutual funds, namely their risk tolerance and the schemes, plans, and alternatives that appeal to them the most.

I. INTRODUCTION

Sectoral funds, which were a hit with mutual fund investors during the last Bull Run, are back in vogue and are being marketed as sector exchange traded funds or sector ETFs this year.

According to Ms Iyer, sectoral ETFs provide investors an easy way to transact on the exchange and avail themselves of the benefits of knowing the near real-time prices of their fund investments.

Benchmark Mutual Fund has sought Sebi approvals to launch six ETFs with IT, FMCG, services, energy, pharma and realty as the base themes. The ETFs will be marked against CNX IT, CNX FMCG, CNX Services Sector , CNX Energy, CNX Pharma and CNX Realty indices. The minimum investment for these schemes is Rs 10,000 and in mul-tiples of Re 1 thereafter. Apart from Benchmark, UTI, Edelweiss MF, Reliance Mutual and Religare Mutual have plans to launch sector ETFs in the near term.
According to senior officials at Benchmark, sectoral ETFs allow cost-effective portfolio diversification at one shot thereby reducing scrip-specific risk. It allows foreign portfolio investors and institutional investors to have wide sectoral exposure.

Being listed on the exchanges — and in dematerialised format, ETFs can be traded without much of a hassle. Unlike sector-based mutual funds, there are no exit charges or loads on ETFs.

“ETFs are going to get larger in times to come. We’re also open to the idea of sector ETFs and we’re working on plans along the same lines,” said Jaideep Bhattacharya, CMO, UTI Asset Management.
According to Mr Bhattacharya, the coming months will see fund houses launching ETFs with specific regions or markets as the underlying theme.

While the industry is more or less gung-ho about launching sector ETFs, voices of dissent are being heard from wealth managers and in-vestment advisors.

“ETFs follow a passive investment strategy. There are several diversified equity funds that can generate better returns than ETFs. Only ac-tive fund management can add value to investor portfolios,” said a Mumbai-based wealth manager on condition of anonymity. According to investment experts, exposure to a few sectors could in-crease risk on overall fund portfolios. Investors in sector-based funds and ETFs could suffer losses when outlook turns bleak or negative.

NEED OF THE STUDY

1. Mutual funds are dynamic financial intuitions which play crucial role in an economy by mobilizing savings and investing them in the capital market.
2. The activities of Mutual funds have both short and long term impact on the savings in the capital market and the national economy.
3. Mutual funds, trust, assist the process of financial deepening & intermediation.
4. To banking at the same time they also compete with banks and other financial intuitions.
5. India is one of the few countries to day maintain a study growth rate is domestic savings.

SCOPE OF THE STUDY:

The study is limited to the analysis made on two major types of schemes offered by banks. Each scheme is calculated in term of their risk and return using different performance measurement theories. The reasons for such performance in immediately analyzed in the commentary. Column charts are used to reflect the portfolio risk and return.

II. OBJECTIVES OF THE STUDY:

- To understand what Mutual fund companies.
- To understand Mutual fund companies viz. As Sectoral funds
- To understand each company performance basing on weekly wise data starting from Monday.

- To understand the investment strategies followed by each company.

HYPOTHESIS

The Market data that has been used to see whether the risk and return calculated can be used has an indicator to the investor to minimize the risk and maximize the returns on its investment.

III. RESEARCH METHODOLOGY:

For, the purpose of the study, the data collected from primary and Secondary has sanitized edited and presented in the form of tables and statements. The analysis of the data has been made with the help of certain mathematical techniques lie percentages etc. Where ever feasible and opportiate graphs and diagrams are used.

The collection of data is done through two principles sources viz

1. Primary Data
2. Secondary Data

PRIMARY DATA

It is the information collected directly without any reference. In the study, it mainly interviews with concerned officers and staff either individually or collectively. Some of the information had been verified or supplemented with personal observation, the data collected through conducting personal interview with the officer of the India bulls.

SECONDARY DATA:

The data that is used in this project is of secondary nature. The data has been collected from secondary sources such as various websites, journals, newspapers, books, etc.

METHOD OF STUDY:

The data collected for the two sectors are of three months data i.e., Dec 2014 – Jan 2015. The data for study purpose is taken on weekly basis .The data taken into consideration is every Monday.

TIME PERIOD

The time duration of the study for analyzing the data is from dec 2014 – Jan 2015. Data is collected from websites and ECONOMIC TIMES

LIMITATIONS OF THE STUDY:

- The study is conducted in short period, due to which the study may not be detailed in all aspects.

- The study is limited only to the analysis of different schemes and its suitability to different investors according to their risk-taking ability.

- The study is based on secondary data available from monthly fact sheets, web sites, offer documents, magazines and newspapers etc. as primary data was not accessible.
- The study is limited by the detailed study of various schemes.

IV. MUTUAL FUND

Mutual fund is a trust that pools money from a group of investors (sharing common financial goals) and invest the money thus collected into asset classes that match the stated investment objectives of the scheme. Since the stated investment objective of a mutual fund scheme generally forms the basis for an investor's decision to contribute money to the pool, a mutual fund can not deviate from its stated objectives at any point of time.

Every Mutual Fund is managed by a fund manager, who using his investment management skills and necessary research works ensures much better return than what an investor can manage on his own. The capital appreciation and other incomes earned from these investments are passed on to the investors (also known as unit holders) in proportion of the number of units they own.

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 value of the Mutual Fund scheme's assets net of its liabilities. NAV of a scheme is calculated by dividing the market value of scheme's assets by the total number of units issued to the investors.

For example:

A. If the market value of the assets of a fund is Rs. 100,000

B. The total number of units issued to the investors is equal to 10,000.

C. Then the NAV of this scheme = (A)/(B), i.e. 100,000/10,000 or 10.00

D. Now if an investor 'X' owns 5 units of this scheme

E. Then his total contribution to the fund is Rs. 50 (i.e. Number of units held multiplied by the NAV of the scheme)

ADVANTAGES OF MUTUAL FUND

1. Portfolio Diversification Mutual Funds invest in a well-diversified portfolio of securities which enables investor to hold a diversified investment portfolio (whether the amount of investment is big or small).

2. Professional Management Fund manager undergoes through various research works and has better investment management skills which ensure higher returns to the investor than what he can manage on his own.

3. Less Risk Investors acquire a diversified portfolio of securities even with a small investment in a Mutual Fund. The risk in a diversified portfolio is lesser than investing in merely 2 or 3 securities.

4. Low Transaction Costs Due to the economies of scale (benefits of larger volumes), mutual funds pay lesser transaction costs. These benefits are passed on to the investors.

5. Liquidity An investor may not be able to sell some of the shares held by him very easily and quickly, whereas units of a mutual fund are far more liquid.

6. Choice of Schemes Mutual funds provide investors with various schemes with different investment objectives. Investors have the option of investing in a scheme having a correlation between its investment objectives and their own financial goals. These schemes further have different plans/options

7. Transparency Funds provide investors with updated information pertaining to the markets and the schemes. All material facts are disclosed to investors as required by the regulator.

8. Flexibility Investors also benefit from the convenience and flexibility offered by Mutual Funds. Investors can switch their holdings from a debt scheme to an equity scheme and vice-versa. Option of systematic (at regular intervals) investment and withdrawal is also offered to the investors in most open-end schemes.

9. Safety Mutual Fund industry is part of a well-regulated investment environment where the interests of the investors are protected by the regulator. All funds are registered with SEBI and complete transparency is forced.

DISADVANTAGES OF MUTUAL FUND

1.Costs Control Not in the Hands of an Investor Investor has to pay investment management fees and fund distribution costs as a percentage of the value of his investments (as long as he holds the units), irrespective of the performance of the fund.

2. No Customized Portfolios The portfolio of securities in which a fund invests is a decision taken by the fund manager. Investors have no right to interfere in the decision making process of a fund manager, which some investors find as a constraint in achieving their financial objectives.

3. Difficulty in Selecting a Suitable Fund Scheme Many investors find it difficult to select one option from the plethora of funds/schemes/plans available. For this, they may have to take advice from financial planners in order to invest in the right fund to achieve their objectives.

V. TYPES OF MUTUAL FUNDS

General Classification of Mutual Funds

Open-end Funds / Closed-end Funds

Open-end Funds

Funds that can sell and purchase units at any point in time are classified as Open-end Funds. The fund size (corpus) of an open-end fund is variable (keeps changing) because of continuous selling (to investors) and repurchases (from the investors) by the fund. An open-end fund is not required to keep selling new units to the investors at all times but is required to always repurchase, when an investor wants to sell his units. The NAV of an open-end fund is calculated every day.

Closed-end Funds

Funds that can sell a fixed number of units only during the New Fund Offer (NFO) period are known as Closed-end Funds. The corpus of a Closed-end Fund remains unchanged at all times. After the closure of the offer, buying and redemption of units by the investors directly from the Funds is not allowed. However, to protect the interests of the investors, SEBI provides investors with two avenues to liquidate their positions:

1. Closed-end Funds are listed on the stock exchanges where investors can buy/sell units from/to each other. The trading is generally done at a discount to the NAV of the scheme. The NAV of a closed-end fund is computed on a weekly basis (updated every Thursday)
2. Closed-end Funds may also offer "buy-back of units" to the unit holders. In this case, the corpus of the Fund and its outstanding units do get changed.

Load Funds/no-load funds

Load Funds

Mutual Funds incur various expenses on marketing, distribution, advertising, portfolio churning, fund manager’s salary etc. Many funds recover these expenses from the investors in the form of load. These funds are known as Load Funds. A load fund may impose following types of loads on the investors:

- **Entry Load –** Also known as Front-end load, it refers to the load charged to an investor at the time of his entry into a scheme. Entry load is deducted from the investor’s contribution amount to the fund.

- **Exit Load –** Also known as Back-end load, these charges are imposed on an investor when he redeems his units (exits from the scheme). Exit load is deducted from the redemption proceeds to an outgoing investor.
- **Deferred Load –** Deferred load is charged to the scheme over a period of time.
- **Contingent Deferred Sales Charge (CDSS) –** In some schemes, the percentage of exit load reduces as the investor stays longer with the fund. This type of load is known as Contingent Deferred Sales Charge.

No-load Funds

All those funds that do not charge any of the above mentioned loads are known as No-load Funds.

Tax-exempt Funds/ Non-Tax-exempt Funds

Tax-exempt Funds

Funds that invest in securities free from tax are known as Tax-exempt Funds. All open-end equity oriented funds are exempt from distribution tax (tax for distributing income to investors). Long term capital gains and dividend income in the hands of investors are tax-free.

Non-Tax-exempt Funds

Funds that invest in taxable securities are known as Non-Tax-exempt Funds. In India, all funds, except open-end equity oriented funds are liable to pay tax on distribution income. Profits arising out of sale of units by an investor within 12 months of purchase are categorized as short-term capital gains, which are taxable. Sale of units of an equity oriented fund is subject to Securities Transaction Tax (STT). STT is deducted from the redemption proceeds to an investor

The Ground rules of Mutual Fund Investing

Moses gave to his followers 10 commandments that were to be followed till eternity. The world of investments too has several ground rules meant for investors who are novices in their own right and wish to enter the myriad world of investments. These come in handy for there is every possibility of losing what one has if due care is not taken.

1.**Assess yourself:** Self-assessment of one's needs; expectations and risk profile is of prime importance failing which; one will make more mistakes in putting money in right places than otherwise. One should identify the degree of risk bearing capacity one has and also clearly state the expectations from the investments. Irrational expectations will only bring pain.

2.**Try to understand where the money is going:** It is important to identify the nature of investment and to know if one is compatible with the investment. One can lose substantially if one picks the wrong kind of mutual fund. In order to avoid any confusion it is better to go through the literature such as offer document and fact sheets that mutual fund companies provide on their funds.

3.**Don't rush in picking funds, think first:** one first has to decide what he wants the money for and it is this investment goal that should be the guiding light for all investments done. It is thus important to know the risks associated with the fund and align it with the quantum of risk one is willing to take. One should take a look at the portfolio of the funds for the purpose. Excessive exposure to any specific sector should be avoided, as it will only add to the risk of the entire portfolio. Mutual funds invest with a certain ideology such as the "Value Principle" or "Growth Philosophy". Both have their share of critics but both philosophies work for investors of different kinds. Identifying the proposed investment philosophy of the fund will give an insight into the kind of risks that it shall be taking in future.

4.**Invest. Don't speculate:** A common investor is limited in the degree of risk that he is willing to take. It is thus of key importance that there is thought given to the process of investment and to the time horizon of the intended investment. One should abstain from speculating which in' other words would mean getting out of one fund and investing in another with the intention of making quick money. One would do well to remember that nobody can perfectly time the market so staying invested is the best option unless there are compelling reasons to exit.

5.**Don't put all the eggs in one basket:** This old age adage is of utmost importance. No matter what the risk profile of a person is, it is always advisable to diversify the risks associated. So putting one's money in different asset classes is generally the best option as it averages the risks in each category. Thus, even investors of equity should be judicious and invest some portion of the investment in debt. Diversification even in money in the hands of several fund managers. This might reduce the maximum return possible, but will also reduce the risks.

6.**Be regular:** Investing should be a habit and not an exercise undertaken at one's wishes, if one has to really benefit from them. As we said earlier, since it is extremely difficult to know when to enter or exit the market. It is important to beat the market by being systematic. The basic philosophy of Rupee cost averaging would suggest that if one invests regularly through the ups and downs of the market, he would stand a better chance of generating more returns than the market for the entire duration. The SIPs (Systematic Investment Plans) offered by all funds helps in being systematic.

Performance Measures of Mutual Funds

Mutual Fund industry today, with about 34 players and more than five hundred schemes, is one of the most preferred investment avenues in India. However with a plethora of schemes to choose from the retail investor faces problems in selecting funds. Factors such as investment strategy and management style are qualitative, but the funds record is an important indicator too. Though past performance alone cannot be indicative of future performance, it is, frankly, the only quantitative way to judge how good a fund is at present. Therefore, there is a need to correctly assess the past performance of different mutual funds.

Worldwide, good Mutual fund companies over are known by their AMCs and this fame is directly linked to their superior stock selection skills. For mutual funds to grow, AMCs must be held accountable for their selection of stocks. In other words, there must be some performance indicator that will reveal the quality of stock selection of various AMCs.

Return alone should not be considered as the basis of measurement of the performance of a mutual fund scheme. It should also include the risk taken by the fund manager because different funds will have different levels of risk attached to them. Risk associated with a fund, in a general, can be defined as variability or fluctuations in the returns generated by it. The higher the t1uctuations in the returns of a fund during a given period, higher will be the risk associated with it. These fluctuations in the returns generated by a fund are resultant of two guiding forces.

First, general market fluctuations, which affect all the securities present in the market, called market risk or systematic risk and second, t1uctuations due to specific securities present in the portfolio of the fund, called unsystematic risk.

The **Total Risk** of a given fund is sum of these t\VO and is measured in terms of **standard deviation** of returns of the fund. Systematic risk. On the other hand is measured in terms of **Beta,** which represents t1uctuations in the NA V of the fund vis-à-vis market. The more responsive the NA V of a mutual fund is to the changes in the market; higher will be its beta. Beta is calculated by relating the returns on a mutual fund with the returns in the market. While unsystematic risk can be diversified through investments in a number of instruments, systematic risk cannot.

VI. CONCLUSIONS

- It is evident from the research analysis that EQUITY FUNDS-SBI MUTUAL FUND is functioning very well.
- Profits may be achieved by investing in the LIC Nomura Balanced Growth.
- SBI Mutual Fund is doing well when looking at the big picture.
- It is necessary to inform potential investors about mutual fund investments.
- The industry's management and investors should be open and honest about their goals.
- The number of mutual funds has increased by 100% as a result of the influx of international AMCS into the Indian markets.
- Rural regions may also be accessed via mutual funds.

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