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A Critical Analysis Of Selected Mutual Funds In India

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Abstract

Mutual funds allow for portfolio diversification and relative risk aversion through collection of funds from the households and investment of the same in the stock and debt markets. Fixed- Income Funds in India are a kind of mutual fund which makes investment in debt securities that have been issued either by the companies, banks, or government. Fixed- Income Funds in India are also known as debt funds and income funds.

Using various statistical measures the present study aims to evaluating the performance of a few selected income or debt mutual funds schemes of India on the basis of their daily NAV. Popularity of income schemes has only increased in the last decade. Income mutual funds they have seen tremendous growth in their number of schemes from 91 on 31st march 2001 to 330 on 31st march 2010. 506 in 2008 was the maximum ever in terms of total schemes floating in the market. This category has seen a decline only twice in the last decade. First fall was posted in the year 2003 and the second fall was reported in the year 2010. One striking fact which comes to light is the huge percentage contribution of income schemes towards the total AUM of the Indian mutual funds industry.

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Keywords: Debt funds; Income Schemes; Mutual Funds; Performance Evaluation

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1. Introduction

Mutual Funds:

A mutual fund is like a bridge or a financial intermediary that allows a group of investors to pool in their money together with a pre-determined investment objective and then this gathered money is invested by the fund manager into specific securities (stocks or bonds).

Mutual funds can be considered as one of the best investment avenues because 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.

Mutual Funds can be categorised according to their nature as below:-

a) Equity funds:

Equity mutual funds invest pooled amount in the stocks of public companies. Equity fund managers apply different styles for stock picking when they make investment decisions for their portfolios. Some fund managers use a value approach to stocks, searching for stocks that are undervalued when compared to other companies. Another approach is to look primarily at growth, trying to find stocks that are growing faster than their competitors, or the market as a whole. Some managers buy both kinds of stocks, creating a portfolio of both growth and value stocks.

b) Debt funds:

Debt mutual fund is a type of mutual fund that is designed especially for the low risk investor whose main aim is capital appreciation coupled with decent returns on investment. These are for investors who prefer funds with lesser volatility and want a regular income.

Debt funds can give:

- Capital Appreciation
- Regular Income

c) Balanced funds:

As the name suggest, they are mixture of both - equity and debt funds. They invest in both equities and fixed income securities, which are in line with pre-defined investment objective of the scheme. Equity part provides growth and the debt part provides stability in returns.

These type of funds are meant to diversify away a little of equity risk by exposure to debt, while maintaining decent returns as well.