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Research Paper Commerce

Mutual Fund and Hedge Fund-A Valuable study

* Dr. A. Vinayagamoorthy ** M.Somasundaram

* Associate Professor, Department of Commerce, Periyar University, Salem-11. Tamil Nadu

** Research Scholar(PT), Department of Commerce, Bharathiar University, Coimbatore

ABSTRACT

Mutual fund performance is marked against a relevant benchmark which they try to beat in up years with superior performance and protect their investors with less loss in bad years- Pooled investment vehicle similar to a hedge fund. They can use some securities that have returns traditionally uncorrelated with the overall market but in general they are limited to stocks, money market accounts, and bonds. Anyone can invest in mutual funds. Mutual funds calculate the price of their vehicle daily based on the number of investors and the market-rate or cost for a mutual fund goes up as it becomes more popular. We can find mutual fund of fund products and they have been rising in popularity in the past 5 years- Average cost of a mutual fund is 75 basis points or .75% per year.

In hedge fund there are around 13000 competing against each other. Hedge funds have developed an image of being ultra risky employing dangerous levels of leverage. It may invest in art, website domain names, stocks, bonds, options, futures, Foreign Exchange, or wind power farms. Hedge funds manage their portfolios aiming for absolute growth targets and they don't usually compare themselves against any stock exchange-based benchmark such as the S & P 500 or Russell 3000. Most hedge funds are attempting to invest their money that is uncorrelated with the overall market

Keywords : Mutual Fund, Hedge Fund, Risk, Securities, Investment

Introduction

Mutual funds are being collected from investors and being invested in stocks, money markets and bonds. But this is basically believed by investors as one of the good investment in market with low risk. Hedge funds are being collected from investors and being invested in wind power farms, foreign exchange, bonds and stock. Both are important investment to the investors and the same will be discussed in detail. Investing in mutual fund and hedge fund DEMAT account is not mandatory but PAN is mandatory one.

Mutual Fund

- A mutual fund is a type of professionally-managed collective investment scheme that pools money from many investors to purchase securities. While there is no legal definition of mutual fund, the term is most commonly applied only to those collective investment schemes that are regulated, available to the general public and open-ended in nature.
- The term mutual fund is less widely used outside of the United States. For collective investment schemes outside of the United States, see articles on specific types of funds including open-ended investment companies, SICAVs, unitized insurance funds, unit trusts and Undertakings for Collective Investment in Transferable Securities.
- In the United States, mutual funds must be registered with the Securities and Exchange Commission, overseen by a board of directors or board of trustees and managed by a registered investment advisor. They are not taxed on their income if they comply with certain requirements.
- Mutual funds have both advantages and disadvantages compared to direct investing in individual securities. They have a long history in the United States. Today they play an important role in household finances.
- There are 3 types of mutual funds: open-end, unit investment trust, and closed-end. The most common type, the open-end mutual fund, must be willing to buy back its shares from its investors at the end of every business day. Exchange-traded funds are open-end funds or unit investment trusts that trade on an exchange. Open-end funds are most common, but exchange-traded funds have been gaining in popularity.
- Mutual funds are classified by their principal investments. The four largest categories of funds are money market funds, bond or fixed income funds, stock or equity funds and hybrid funds. Funds may also be categorized as index or actively-managed.
- Investors in a mutual fund pay the fund's expenses. There is controversy about the level of these expenses. A single mutual fund may give investors a choice of different combinations of expenses by offering several different types of share classes.

Hedge Fund

- A hedge fund is an investment fund that can undertake a wider range of investment and trading activities than other funds, but which is only open for investment from particular types of investors specified by regulators. These investors are typically institutions, such as pension funds, university endowments and foundations, or high net worth individuals. As a class, hedge funds invest in a diverse range of assets, but they most commonly trade liquid securities on public markets. They also employ a wide variety of investment strategies, and make use of techniques such as short selling and leverage.
- Hedge funds are typically open-ended, meaning that investors can invest and withdraw money at regular, specified intervals. The value of an investment in a hedge fund is calculated as a share of the fund's net asset value, meaning that increases and decreases in the value of the fund's assets are directly reflected in the amount an investor can later withdraw.
- Most hedge fund investment strategies aim to achieve a positive return on investment whether markets are rising or falling. Hedge fund managers typically invest their own money in the fund they manage, which serves to align their interests with investors in the fund. A hedge fund

typically pays its investment manager a management fee, which is a percentage of the assets of the fund, and a performance fee if the fund's net asset value increases during the year. Some hedge funds have a net asset value of several billion dollars.

- Because hedge funds are not sold to the public or retail investors, the funds and their managers have historically not been subject to the same restrictions that govern other funds and investment fund managers with regard to how the fund may be structured and how strategies and techniques are employed. Regulations passed in the United States and Europe after the 2008 credit crisis are intended to increase government oversight of hedge funds and eliminate certain regulatory gaps.

Difference between a Mutual fund and a Hedge fund:

- Mutual funds generally remunerate management based on a percent of assets under management. Hedge funds always remunerate managers with performance-related incentive fees as well as a fixed fee. Investing for absolute returns is more demanding than simply seeking relative returns and requires greater skill, knowledge, and talent. Not surprisingly, the incentive-based performance fees tend to attract the most talented investment managers to the hedge fund industry.
- Mutual funds are measured on relative performance - that is, their performance is compared to a relevant index such as the S&P 500 Index or to other mutual funds in their sector. Hedge funds are expected to deliver absolute returns - they attempt to make profits under all circumstances, even when the relative indices are down.
- Mutual funds are highly regulated, restricting the use of short selling and derivatives. These regulations serve as handcuffs, making it more difficult to outperform the market or to protect the assets of the fund in a downturn. Hedge funds, on the other hand, are unregulated and therefore unrestricted - they allow for short selling and other strategies designed to accelerate performance or reduce volatility. However, an informal restriction is generally imposed on all hedge fund managers by professional investors who understand the different strategies and typically invest in a particular fund because of the manager's expertise in a particular investment strategy. These investors require and expect the hedge fund to stay within its area of specialization and competence. Hence, one of the defining characteristics of hedge funds is that they tend to be specialized, operating within a given niche, specialty or industry that requires a particular expertise.
- The future performance of mutual funds is dependent on the direction of the equity markets. It can be compared to putting a cork on the surface of the ocean - the cork will go up and down with the waves. The future performance of many hedge fund strategies tends to be highly predictable and not dependent on the direction of the equity markets. It can be compared to a submarine travelling in an almost straight line below the surface, not impacted by the effect of the waves.
- Mutual funds are not able to effectively protect portfolios against declining markets other than by going into cash or by shorting a limited amount of stock index futures. Hedge funds, on the other hand, are often able to protect against declining markets by utilizing various hedging strategies. The strategies used, of course, vary tremendously depending on the investment style and type of hedge fund. But as a result of these hedging strategies, certain types of hedge funds are able to generate positive returns even in declining markets.

Conclusion

- Both the funds are good investment to the investors
- During investment period, investor should read terms and conditions of the funds
- We cannot deny that these funds are having market risk
- If we compare with share market these fund markets are being with some safest side
- Investing in mutual fund and hedge fund DEMAT account is not mandatory
- PAN is mandatory for investing mutual fund and hedge fund.

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