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Marketing Management of Mutual Fund Business In India

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ABSTRACT

This article only research purpose. This topic attempts a critical review of the performance and policy concerning Indian a mutual fund is a professionally managed type of collective investment scheme that pools money from many investors and invests typically in investment securities (stocks, bonds, short-term money market instruments, other mutual funds, other securities, and/or commodities such as precious metals). Despite being available in the market for over two decades now with assets under management equaling Rs 7,81,71,152 Lakhs (as of 28 February 2010), less than 10% of Indian households have invested in mutual funds. A recent report on Mutual Fund Investments in India published by research and analytics firm, Boston Analytics, suggests investors are holding back from putting their money into mutual funds due to their perceived high risk and a lack of information on how mutual funds work. This report is based on a survey of approximately 10,000 respondents in 15 Indian cities and towns as of March 2010. There are 46 Mutual Funds as of June 2013.

Keywords : Indian mutual fund market

History

The first mutual funds were established in Europe. One researcher credits a Dutch merchant with creating the first mutual fund in 1774.Massachusetts Investors Trust (now MFS Investment Management) was founded on March 21, 1924, and, after one year, it had 200 shareholders and $392,000 in assets. The entire industry, which included a few closed-end funds, represented less than $10 million in 1924.

With renewed confidence in the stock market, mutual funds began to blossom. By the end of the 1960s, there were approximately 270 funds with $48 billion in assets. The first retail index fund, First Index Investment Trust, was formed in 1976 and headed by John Bogle, who conceptualized many of the key tenets of the industry in his 1951 senior thesis at Princeton University.

As of October 2007, there are 8,015 mutual funds that belong to the Investment Company Institute (ICI), a national trade association of investment companies in the United States, with combined assets of $12.356 trillion. At the end of 2011, there were over 14,000 mutual funds in the United States with combined assets of $13 trillion, according to the Investment Company Institute (ICI), a trade association of investment companies in the United States. The ICI reports that worldwide mutual fund assets were $23.8 trillion on the same date

Sources ; Wikipedia articles

USAGE, INVESTMENT OBJECTIVES

Since the Investment Company Act of 1940, a mutual fund is one of three basic types of investment companies available in the United States.

Most mutual funds' investment portfolios are continually monitored by one or more employees within the sponsoring investment adviser or management company, typically called a portfolio manager and their assistants, who invest the funds assets in accordance with its investment objective and trade securities in relation to any net inflows or outflows of investor capital (if applicable), as well as the ongoing performance of investments appropriate for the fund. A mutual fund is advised by the investment adviser under an advisory contract which generally is subject to renewal annually.

MUTUAL FUNDS BUSINESS IN INDIA

UTI enjoyed a monopoly in the Indian mutual fund market till 1987 when a host of other government controlled Indian financial companies came up with their own funds. These included State Bank of India, Canara Bank, Punjab National Bank etc. This market was made open to private players in 1993 after the historic constitutional amendments brought forward by the then Congress led government under the existing regime of Liberalization, Privatization and Globalization (LPG). The first private sector fund to operate in India was Kothari Pioneer which was later merged with Franklin Templeton.

MANAGEMENT MARKETING MUTUAL FUNDS IN INDIA

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank of India. The history of mutual funds in India can be broadly divided into four distinct phases

First Phase – 1964-87

Unit Trust of India (UTI) was established on 1963 by an Act of Parliament. It was set up by the Reserve Bank of India and functioned under the Regulatory and administrative control of the Reserve Bank of India.

Second Phase – 1987-1993

1987 marked the entry of non- UTI, public sector mutual funds set up by public sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first non- UTI Mutual Fund established in June 1987 followed by Canbank Mutual Fund (Dec 87), Punjab National Bank Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund (Oct 92). LIC established its mutual fund in June 1989 while GIC had set up its mutual fund in December 1990.

Third Phase – 1993-2003
With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund families

The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996.

The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. As at the end of January 2003, there were 33 mutual funds with total assets of Rs. 1,21,805 crores.

Fourth Phase – since February 2003
In February 2003, following the repeal of the Unit Trust of India Act 1963 UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs.29,835 crores as at the end of January 2003, representing broadly, the assets of US 64 scheme, assured return and certain other schemes.

The second is the UTI Mutual Fund, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. With the bifurcation of the erstwhile UTI which had in March 2000 more than Rs.76,000 crores of assets under management and with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth.
Sources ;www.amfi.com

STOCK MARKET INDEX
A **stock market index** is a method of measuring a section of the stock market. Many indices are cited by news or financial services firms and are used as benchmarks, to measure the performance of portfolios such as mutual funds

TYPES OF INDICES
Stock market indices may be classed in many ways. A ‘world’ or ‘global’ stock market index includes (typically large) companies without regard for where they are domiciled or traded. Two examples are MSCI World and S&P Global 100.

A ‘national’ index represents the performance of the stock market of a given nation—and by proxy, reflects investor sentiment on the state of its economy. The concept may be extended well beyond an exchange. The Wilshire 5000 Index, the original total market index, represents the stocks of nearly every publicly traded company in the United States, including all U.S. stocks traded on the New York Stock Exchange (but not ADRs or limited partnerships), NASDAQ and American Stock Exchange. Russell Investment Group added to the family of indices by launching the Russell Global Index.

More specialized indices exist tracking the performance of specific sectors of the market. Some examples include the Wilshire US REIT which tracks more than 80 American Real Estate Investment Trusts and the Morgan Stanley Biotech Index which consists of 36 American firms in the biotechnology industry.

INDEX VERSIONS
Some indices, such as the S&P 500, have multiple versions. These versions can differ based on how the index components are weighted and on how dividends are accounted for. For example, there are three versions of the S&P 500 index: price return, which only considers the price of the components, total return, which accounts for dividend reinvestment, and net total return, which accounts for dividend reinvestment after the deduction of a withholding tax.

WEIGHTING
An index may also be classified according to the method used to determine its price. In a price-weighted index such as the Dow Jones Industrial Average, Amex Major Market Index, and the NYSE ARCA Tech 100 Index, the price of each component stock is the only consideration when determining the value of the index.

Traditionally, capitalization- or share-weighted indices all had a full weighting, i.e. all outstanding shares were included. Recently, many of them have changed to a float-adjusted weighting which helps indexing.

A modified capitalization-weighted index is a hybrid between capitalization weighting and equal weighting. It is similar to a capitalization weighting with one main difference: the largest stocks are capped to a percent of the weight of the total stock index and the excess weight will be redistributed equally amongst the stocks under that cap. Moreover, in 2005, Standard & Poor’s introduced the S&P Pure Growth Style Index and S&P Pure Value Style Index which was attribute-weighted.

CRITICISM OF CAPITALIZATION-WEIGHTING
The use of capitalization-weighted indices is often justified by the central conclusion of modern portfolio theory that the optimal investment strategy for any investor is to hold the market portfolio, the capitalization-weighted portfolio of all assets. However, empirical tests conclude that market indices are not efficient this can be explained by the fact that these indices do not include all assets or by the fact that the theory does not hold. The practical conclusion is that using capitalization-weighted portfolios is not necessarily the optimal method.

INDICES AND PASSIVE INVESTMENT MANAGEMENT
There has been an accelerating trend in recent decades to create passively managed mutual funds that are based on market indices, known as index funds. Advocates claim that index funds routinely beat a large majority of actively managed mutual funds; one study claimed that over time, the average actively managed fund has returned 1.8% less than the S&P 500 index - a result nearly equal to the average expense ratio of mutual funds (fund expenses are a drag on the funds’ return by exactly that ratio).

STOCK MARKET INDICES
In 2010, the OIC announced the initiation of a stock index that complies with Islamic law’s ban on alcohol, tobacco and gambling. Other such equities, such as the Dow Jones Islamic Market World Index, already exist.

Another important trend is strict mechanical criteria for inclusion and exclusion to prevent market manipulation, e.g. in Canada when Nortel was permitted to rise to over 30% of the TSE 300 index value.

Critics of such initiatives argue that many firms satisfy mechanical “ethical criteria”, e.g. regarding board composition or hiring practices, but fail to perform ethically with respect to shareholders, e.g. Enron. Indeed, the seeming “seal of approval” of an ethical index may put investors more at ease, enabling scams..

ENVIRONMENTAL STOCK MARKET INDICES
An environmental stock market index aims to provide a quantitative measure of the environmental damage caused by the companies in an index. Indices of this nature face much of the same criticism as Ethical indices do — that the ‘score’ given is partially subjective.

However, whereas ‘ethical’ issues (for example, does a company use a sweatshop) are largely subjective and difficult to score, an environmental impact is often quantifiable through scientific methods. Generally, most environmental economists attempting to create an environmental index would attempt to quantify damage in monetary terms.

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