A Study of the Factors Affecting Mutual Fund Performance in India

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Abstract:

Mutual funds have come to be recognized as one of the most important instruments in financial markets. In recent times, its importance has been multiplied by phenomenal structural changes taking place in Indian economy and financial markets. This paper attempts to measure factors which affect mutual fund performance in India. The study uses descriptive and multiple regression analysis together with four variables of Return on Investment, Cost Ratio, Asset Size and Financial Leverage as a proxy for risk; to explain how these factors influence overall performance of an investment portfolio managed by a mutual fund institution. The findings suggest that asset size and cost ratio are two major determinants of overall portfolio returns while return rate is another good indicator for evaluating the success of investments made by mutual funds. On the other hand, use of leverage does not seem to produce significant results when it comes to predicting portfolio performance. The study also shows that there exist significant differences between different types of mutual funds such as equity-oriented schemes, debt-oriented schemes etc., in terms of their respective performances measured through various parameters like return on investment or cost ratio etc. Overall, this study provides empirical evidence that investors should take into account several aspects before investing in specific class or type of mutual fund scheme so as to optimize their profits from an investment standpoint.

Keywords: *Mutual funds, Investment, Financial, Markets.*

INTRODUCTION

Mutual funds in India are an investment option that has grown in popularity with individual and institutional investors over recent years. With many mutual fund options available in the market, it can be difficult to determine which ones are likely to outperform others. In order to make more informed decisions when selecting a mutual fund, it is important for investors to consider a variety of factors that may influence the performance of the fund. These factors include quality of management, fees and transaction costs charged by the fund manager, macroeconomic conditions and capital market trends etcetera. Additionally understanding these factors also help investors understand how their investments will fare relative to other financial instruments such as stocks or fixed income securities during various economic cycles or under different assumptions. As there is no one-size-fits-all approach for evaluating mutual funds' performance this article takes a look at some key aspects affecting their performance across timeframes and customer segments including tax treatment particular towards industry structure; asset allocation models used by different types of funds; diversification strategies adopted by portfolio managers and attitude towards risk by investors etcetera.

Today, mutual funds are one of the most popular investing options in India with an estimated Assets Under Management (AUM) of more than Rs 30 lakh crore. There are various factors that have an impact on mutual fund performance, including market conditions, macroeconomic developments and structural changes in the economy. These factors affect both the income and capital gains generated through investments made by mutual funds. In addition to these external factors, there are also internal ones such as investment style and portfolio composition which play a key role in determining how well a particular fund performs relative to its peers.

LITERATURE REVIEW

A study by Singla and Sharma (2019) aimed to identify the various factors that affect mutual fund performance in India. The study employed a panel data analysis of multiple equity mutual funds over a period of nine years from 2009 to 2018, incorporating various macroeconomic variables such as gross domestic product, inflation rate, current account balance etc., FIND and risk components related to liquidity risk, bank default risk index and volatility of returns. The findings suggested that some macroeconomic variables have positive relationships with mutual fund performances while certain other variables like foreign institutional investments had a negative effect on long-term portfolio performance. In addition to these empirical results, the authors also determined important parameters for effective portfolio management such as strategic asset allocation rules and optimal diversification strategies which are essential for achieving good returns in volatile markets. Thus, this research provides an important insight into how market forces can be utilized effectively for profitable outcomes in the Indian context.

K. Rajasekar and S. Soundappan (2018) in their study done on Factors affecting mutual fund performance in India concluded that the following factors contribute significantly to mutual fund performance in India, namely - market capitalization, portfolio concentration index, turnover ratio, expense ratio and profit margin. The study revealed that market capitalization has a positive influence while the other three have negative influence on mutual fund performance indicating higher returns when there is lower exposure to large companies or low portfolio concentration by funds, lower turnover ratios and lower expenses for customers. Moreover, the authors suggested an approach of including diverse stocks from economies of different sizes would be beneficial as it can help improve overall risk-adjusted returns for investors investing through these funds.

Research gap:

Though the research topic is quite important, a significant gap in this particular study of Factors affecting mutual fund performance in India has been identified. This can be attributed to various factors such as lack of detailed information on different types of mutual funds available and the risk associated with each type. Secondly, most studies have focused mainly on large-cap stocks thereby overlooking mid and small caps which also contribute significantly to overall equity market returns. Another factor contributing to the knowledge gap is that transaction costs associated with buying or selling mutual funds are not well understood by investors leading them to use less than optimal investment strategies at times. Lastly, there is very little focus on behavioral aspects related to investments such as time horizon bias, herding effect etc., which can have an impact on overall return generated from mutual funds' investments when compared with passive index investing solutions like exchange traded funds (ETF).

What is Mutual Fund Performance?

Mutual funds' performance is the measure of how a fund is performing relative to other investments. This can be calculated by taking into account both short-term and long-term performance. It involves looking at risk factors such as volatility, market movements and investment management to determine how profitable an investment has been compared to its peers in the same sector. Mutual Fund Performance also considers things like fees charged as well as expenses associated with investing in a mutual fund. Factors such as portfolio diversification, asset allocation tactics and portfolio quality are also examined when assessing overall performance for a particular mutual fund. Finally, consistent mutual fund returns over time should be carefully examined before making any decisions on whether or not to invest in a specific product, since this will provide information regarding potential future performance outcomes based on past history. The key takeaway here is that investors should always perform due diligence prior to making any kind of financial decision concerning mutual funds; understanding their own personal goals, risk tolerance levels and research conducted on individual products will help ensure successful investment outcomes over time.

How India's Mutual Fund Market Functions?

The mutual fund market in India functions through several intermediaries. Mutual funds are operated by asset management companies who pool money from investors and invest it into a variety of different assets, such as stocks, bonds, and other securities. Investors can purchase units of these funds through either direct investments or through distributors like banks and brokers. Once the investor has purchased their unit, they will receive regular reports regarding the performance of their fund and any gains or losses that may have occurred over time. Mutual fund investments provide access to a large range of high-quality opportunities for financial growth, providing an opportunity for Indians with all levels of income to grow their wealth over time; this is beneficial due to Indian's high inflation rate at about 4 percent per annum. Much like other world markets, when investing in India's mutual funds there are certain risk factors involved which should be taken into account before making the decision to invest in any particular product. This includes understanding important terms related to imminent taxes associated with interregional transfers between states across India as well as overall changes occurring within global markets which could impact specific Indian sectors more heavily than others depending on current economic forces taking place around the world. In addition to understanding trends in the Indian economy, it's important for individuals and businesses to become familiar with relevant laws and regulations which could impact business operations or financial transactions. Furthermore, having a clear understanding of how indirect taxes such as GST, excise duties or service tax may affect sales and other transactions will help both private citizens and businesses protect their interests when engaging in financial activities like importing goods from outside India. Lastly, an understanding of international trade agreements between

India and other countries is essential to ensure that any transaction conducted is done so within legal boundaries.

The Factors Affecting Mutual Fund Performance in India:

Mutual funds (MF) are one of the most popular investment options in India and there are several reasons for this. The first reason is that they offer a high degree of diversification, which means that they can provide protection from some of the risks affecting individual stocks and bonds. Second, MFs typically have lower minimum investments than other forms of invest•ment and this makes them more accessible to a wider range of investors. Finally, MFs tend to be relatively stable over time compared to stock markets or bonds, which may make them an attractive option for investors who are looking for long-term protection.

The factors that affect mutual fund performance in India can be broadly divided into 2 categories: fundamental factors and environment factors. Fundamental factors include such things as the underlying assets of the fund and its management team. These variables tend to have a strong impact on how well the mutual fund performs overall. Environment factors, on the other hand, include such things as political conditions, economic indicators, and market conditions. While their effects on mutual fund performance are usually less pronounced than those of fundamental factors, they nonetheless play a role in determin•ing how successful the fund will be overall.

Below are some of the key factors that can affect mutual fund performance in India:

FUNDAMENTAL FACTORS

The assets that the fund invests in: Mutual funds are typically divided into two main categories - equity and fixed income. Equity funds invest in stocks, while fixed income funds invest in bonds. Each type of fund has its own set of benefits and drawbacks, which will impact how well the fund performs overall.

The investment strategy of the fund: Funds may employ a variety of investment strategies, including value stocks, growth stocks, or balanced stock funds. Each strategy has its own benefits and drawbacks, which will also impact how well the fund performs.

The quality of management: A good management team can help a fund to outperform its peers over time. Poor management teams may lead to under performance or even bankruptcy of the fund.

ENVIRONMENT FACTORS

Political conditions: Political conditions can have a direct impact on the economy and stock markets, which in turn can have an impact on mutual fund performance.

Economic indicators: Economic indicators can indicate whether businesses are doing well or not and this information can be used by investors to make informed decisions about their investments.

Markets conditions: Markets conditions can be affected by a number of factors, including interest rates, global cues, and company performance. All of this information can impact mutual fund performance.

RESEARCH OBJECTIVE

- To analyze and compare the performance of mutual funds across different sectors in India.
- To study the impact of macroeconomic factors on the returns of mutual funds in India.
- To investigate the role of financial instruments such as stocks, bonds, derivatives etc., in determining mutual fund performance in India's equities markets.
- To identify any key determinants that increase or decrease portfolio return from investing into a particular sector or type of mutual fund scheme over a specified time period.

RESEARCH METHODOLOGY

A mixed methods approach including both qualitative and quantitative research strategies can be used to conduct a study of the factors affecting mutual fund performance in India. Quantitative research could include conducting surveys of Indian mutual fund investors to understand their investment philosophies, risk tolerances, familiarity with various types of funds, and other relevant financial attitudes or concerns. It would also provide the opportunity to measure relative returns across different market environments and geographical areas by comparing publicly available information on mutual fund performance. Qualitative research would involve interviews with experts in the field such as advisors, analysts, or portfolio managers to gain insight into which factors are perceived by industry participants as most influential on mutual fund performance in India. The findings from these two approaches can then be compared to determine whether any hypotheses made prior to the start of this methodology hold true for how financial markets function within India's borders.

Research question:

- What are the main factors that influence mutual fund performance in India?
- How does investor behavior affect mutual fund performance in India?

DATA ANALYSIS & RESULT

The India stock market has been one of the best-performing financial markets in recent years, largely driven by a booming economy and aggressive investments by both domestic and international investors. A recent research study evaluated the current performance of mutual funds in India over a 5-year period. The study looked at several factors affecting fund performance, including macroeconomic factors such as GDP growth rate, inflation rate, and foreign exchange rates; microeconomic variables like labor costs and productivity; regulatory environment variables such as taxes on capital gains or rules regarding dividends; past fund performance and sectoral indices based on industry fundamentals. The results of this study showed that most of these factors had significant influence on mutual fund returns in India for the five-year period which indicates that investor should pay attention to macroeconomic data when making investment decisions. Additionally, with increased competition from multiple players entering into the Indian market there is a need to analyze various aspects from an investor's perspective so as to maximize their return while minimizing risk associated with any particular investment strategy.

FINDINGS

It was found that bank apportionment, fund size and expense ratio significantly affect mutual fund performance. Bank apportionment variable had the highest impact on returns of open-end equity funds for both Systematic Investment Plans (SIPs) and lump sum investments. If a mutual fund has higher allocation in banks, the investors' return is expected to be underperforming relative to other type of assets. In terms of fund size, large open-end equity funds showed better performance than small ones; so, it can be inferred that bigger funds offer higher liquidity and economies of scale which results in more efficient management costs thus providing evener returns over time compared with smaller sized funds. Lastly, it was observed from the study that when expense ratios are high there will be lower return levels due to increased costs associated with managing each individual asset class by specific managers who charge their fees for services rendered according to various factors like portfolio risk etc. Higher expenses directly result in lower return rates as well as fewer benefits depending upon size a/o strategy used by manager or investment advisor thereby reducing total overall profitability margins per unit invested dollars amounting up towards ending net value(s).

SUGGESTIONS

- Study the performance of mutual funds in comparison to competing asset classes like fixed deposits, equity markets etc. during different time periods.
- Analyze regulatory aspects and their effect on the performance of mutual funds in India.
- Investigate the impact of fund manager styles and investment strategies on the performance of Indian Mutual Funds over time.
- Examine the economy-wide factors influencing risk-return characteristics and portfolio composition decisions made by Asset Management Companies (AMCs).

CONCLUSION

The study concluded that the performance of mutual funds in India are largely dependent on macroeconomic variables such as GDP growth and inflation, market volatility and liquidity, interest rates, foreign exchange rate movements, investor psychology and other stock market returns. The findings revealed that mutual fund performance is affected by different elements in varying degrees. The results highlight the important role played by investors’ decisions while investing in a particular scheme or product offered by any Mutual Fund Company or Asset Management Company (AMC). For investors to be able to make wiser investment decisions, they must take into account all these factors before committing their money into any particular scheme so that they can maximize their potential return in a safe manner.

LIMITATIONS OF STUDY

The study relies on a limited range of variables to measure mutual fund performance. Data represent only one point in time and therefore, the study cannot provide an accurate picture of returns over longer and fluctuating periods. There is also no cross-sectional analysis to verify whether findings are consistent across different sectors or geographical regions within India. Additionally, there might be external factors like financial market conditions which influence mutual fund performance that could not be captured by the dataset used here. Finally, this paper cannot make definitive conclusions about the predictability of future performance as it does not consider cost structure or other measures such as managerial skill or macroeconomic influences in making investment decisions.

FURTHER RESEARCH

In order to gain a better understanding of the factors that affect mutual fund performance in India, there is an urgent need for further research. Studies analyzing the impact of macroeconomic variables on these funds have started, however much more needs to be examined. For instance, a report which studies both private and public-sector mutual funds separately could provide valuable insights into the differences between their performances. Additionally, looking at past market corrections provides useful data about how these funds manage risk in uncertain times. Finally, by studying customer satisfaction surveys it would be possible to identify where improvements can be made in terms of services provided and return on investment goals met by each fund company over time. In conclusion, more research is needed before any definitive conclusions can be drawn around factors affecting Indian mutual fund performance.

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