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Portfolio Analysis and Factors Affecting Mutual Funds

Kundan Gupta, Kuldeep Keshri, Kirandeep Kaur, Mr. Ramarcha Kumar
GALGOTIAS UNIVERSITY

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ABSTRACT-
This exposition envelops a symptomatic report on factors influencing common assets and portfolio examination. The reason for this study is to analyze and look at the different occasions which cause influences on NAVs of Mutual Fund. The Mutual Fund Industry is one of the predominant businesses in Indian economy. Common Funds are best spot to put resources into the current situation but since of vulnerability in Indian market, Mutual Funds are as of now not protected. They additionally endure with same issue which other monetary roads experience like market risk, reliance on worldwide business sectors, worldwide economic situation and so on. Their significance proposes questions like coming up next: Are shared asset any longer a protected Avenue to put resources into? What are the occasions when shared store execution vacillates? What are the impacts of these vacillation on execution of Mutual asset? These are essentially chronicled questions, which can be addressed simply by contrasting the present and the past.

I. INTRODUCTION

MUTUAL FUNDS:

A Mutual Fund is a trust that pools the reserve funds of various financial backers who share a typical monetary objective. The cash subsequently gathered is then put resources into capital market instruments like offers, debentures and different protections.

MUTUAL FUNDS INDUSTRY IN INDIA

The beginning of common asset industry in India is with the presentation of the idea of shared store by UTI in the year 1963. However the development was slow, yet it sped up from the year 1987 when non-UTI players entered the business.

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In the previous ten years, Indian shared reserve industry had seen a sensational upgrades, both quality wise as well as amount wise.
The mutual fund industry can be broadly put into four phases according to the development of the sector. Each face is briefly describe under.

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 worked under the Regulatory and executive control of the Reserve Bank of India. In 1978 UTI wasde-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the nonsupervisory and executive control in place of RBI.

SECOND PHASE - 1987-1993 (ENTRY OF PUBLIC SECTOR FUNDS)

Passage of non-UTI shared reserves. SBI Mutual Fund was the first 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 in 1989 and GIC in 1990. The finish of 1993 stamped Rs.47,004 as resources under administration.

THIRD PHASE - 1993-2003 (ENTRY OF PRIVATE SECTOR FUNDS)

With the passage of private area assets in 1993, another time began in the Indian shared reserve industry, providing the Indian financial backers with a more extensive decision of asset families. Additionally, 1993 was the year wherein the main Mutual Fund Regulations appeared.

FIFTH PHASE (CURRENT)- SINCE MAY 2014

Taking cognisance of the absence of infiltration of MFs, particularly in level II and level III urban communities, and the requirement for more noteworthy arrangement of the interest of different partners, SEBI presented a few moderate measures in September 2012 to "recharge" the Indian Mutual Fundindustry and entrance.

TYPES OF MUTUAL FUNDS SCHEME IN INDIA

Wide assortment of Mutual Fund Schemes exist to take special care of the necessities, for example, monetary position, risk resistance and return assumptions and so on. The table underneath gives an outline into the current sorts of plans in the Industry.

Open - Ended Schemes
Close - Ended Schemes1 `
Stretch Schemes
By Investment Objective
Development Schemes
Pay Schemes

BENEFITS OF A MUTUAL FUND:

- Proficient MANAGEMENT

Reserve supervisors in shared reserves are experts who track the business sectors on a moment to-minute premise. With their blend of expert capability and market information, they are preferred put over the normal financial backer to grasp the business sectors.

- Broadening

Since a common asset plot puts resources into various stocks or debentures, the orderly dangers are significantly diminished. Regardless of whether the stock cost of one of the organizations goes down or organization defaults on installment of premium, it doesn't bring about a significant misfortune to the financial backer, as different possessions of the asset can make up for this fall.

Selection OF SCHEMES

Reasonableness

A little financial backer might observe that purchasing portions of bigger corporations is absurd. Shared reserves for the most part trade protections in huge volumes that permit financial backers to profit from lower exchanging costs.

LIQUIDITY

Interests in shared reserves are totally fluid and can be recovered at NAV related costs on any functioning day. Since these are repurchased by the shared asset itself, there is no gamble of not tracking down a purchaser. Other than reclamation cash can be gotten by the financial backer soon.

- **Simple TO ADMINISTER**

Shared reserves units in present day times are not given in that frame of mind of endorsements, with a base section rather they are given as record proclamations, with an office to hold units in part up to 4 decimal focuses.

Coming up next are the reasons which are impediment to shared store investment:

- **NO CONTROL OVER COSTS.**

Since financial backers don't straightforwardly screen the assets tasks they have zero control over the expenses really. Controllers consequently as a rule limit the costs of shared reserves.

- **NO TAILOR MADE PORTFOLIOS**

Mutual funds portfolios are created and marketed by AMC's, into which investors invest. They cannot create tailor made portfolios.

MUTUAL FUND COMPANIES IN INDIA

The idea of shared assets in India traces all the way back to the year 1963. The time somewhere in the range of 1963 and 1987 denoted the presence of only one common asset organization in India with Rs. 67bn resources under administration (AUM), toward the conclusion of its imposing business model age, the Unit Trust of India (UTI). Toward the finish of the 80s decade, not many other shared reserve organizations in India took their situation in common asset market.

FACTORS AFFECTING MUTUAL FUNDS

1. OIL PRICES

There seems to be no respite for the market when it comes to bad news on oil front. Global crude oil prices have risen to \$123 per barrel since the start of 2008 and reduced to \$34 per barrel. Governments & policymakers across the world are confronting the same challenge on the back of relentless rise in crude prices, but in India's case the pinch is bigger as country imports nearly 75% of crude oil it needs to keep its economy going.

2.INFLATION:

The Middle and upper working class vacation with a flourishing economy is reaching a conclusion as expansion beast reappears and the general development of the economy delayed down. Last year expansion contacted twofold digit which presently has minimal gotten to the next level.

3. **SUB PRIME CRISIS**

Sub-prime emergency got its starting point from United States of America. In U.S.A credits are given on a loan cost known as PRIME RATE. For instance in the event that US \$ 10000 is lended on a pace of 10% p.a, 10% is named as prime rate. The greater part of the U.S economy runs on a credit exchanges. Because of the overabundance liquidity American banks began giving credits at dearer rate than prime rate.

4. FII (FOREIGN INSTITUIONAL INVESTOR)

FIIs put resources into the market straight by buying organizations stock, or through reserves.

There is an extremely basic relationship between's FII, s development and execution of shared assets in India. As more& more assets are siphoned in the securities exchange, the market takes a rise which makes profit for shared store houses, same as when FII, s takes out assets from market, it takes a dow nswing which hampers development of common assets and makes adverse consequence.

5. WAR/TERRORISM

Some times War and Terrorist exercises likewise impacts execution of Mutual assets. Fear based oppressor assault of World Trade place shook the US Stock market a great deal and NAVs of Mutual subsidizes kept the weighty fall in a day. USA assault on Iraq likewise impacted shared reserves.

6. GOVERNMENT POLICIES

The public authority strategy influences the common assets both decidedly and adversely. Any sure or negative insight about change in government strategies rouses or demotivates financial backers to put resources into common supports which is the main motivation of variance in NAVs.

7. Population

India's populace is youthful, with 54% younger than 25 and 80% under 45 and the level of working populace is rising quickly.

A younger and working age population means –

***** Income levels to rise

***** Higher savings and consequent flows into equity markets

***** Increased household consumption

***** Significant increase of labor supply

***** Large population and favorable demographics

8. MOVEMENT IN GLOBAL AND LOCAL MARKET

In todays Globalised world every Stock index is related with other countries index. USA's Dow Jones is the main driver of all world's indexes. As we have seen in last few months that whenever Dow Jones falls, all other Indexes also falls. In Mutual Funds, Fund manager invests a large amount of funds in stocks, so when ever Share values falls Mutual Fund's NAVs also falls.

PORTFOLIO ANALYSIS:

A Portfolio is a combination of securities. The portfolio is constructed in such a manner to meet the investor's goals and objectives. The investor should decide to how best to reach the goals with the securities available. The investor tries to attain maximum return with minimum risk. Towards this end he diversifies his portfolio and allocates funds among the securities. The main objective of portfolio management is diversification to reduce the risk in the loss of capital and income through professional financial experts.

TOOLS OF PORTFOLIO ANAYSIS

There are many tool used in the portfolio analysis. These tools are used to give more meaning to the analysis.

These tools are:

- **STANDARD DEVIATION**

Standard deviation is a proportion of absolute dangers of an asset. As such it estimates the instability of profits of an asset. It demonstrates the propensity of the assets NAV to rise and fall in a brief period. It estimates the degree to which the NAV varies when contrasted with the typical returns during a period.

SHARPE RATIO

The Sharpe ratio represents trade off between risk and returns. At the same time it also factors in the desire to generate returns, which are higher than those from risk free returns. Mathematically the Sharpe ratio is the returns generated over the risk free rate, per unit of risk. Risk in this case is taken to be the fund's standard deviation. As standard deviation represents the total risk experienced by a fund, the Sharpe ratio reflects the returns generated by undertaking all possible risks.

BETA

Beta is a statistical measure that shows how sensitive a fund is to market moves. If the Sensex moves by 25 per cent, a fund's beta number will tell you whether the fund's returns will be more than this or less. The beta value for an index itself is taken as one. Equity funds can have beta values, which can be above one, less than one or equal to one. By multiplying the beta value of a fund with the expected percentage movement of an index, the expected movement in the fund can be determined. Thus if a fund has a beta of 1.2 and the market is expected to move up by ten per cent, the fund should move by 12 per cent (obtained as 1.2 multiplied by 10). Similarly, if the market loses ten per cent, the fund should lose 12 per cent.

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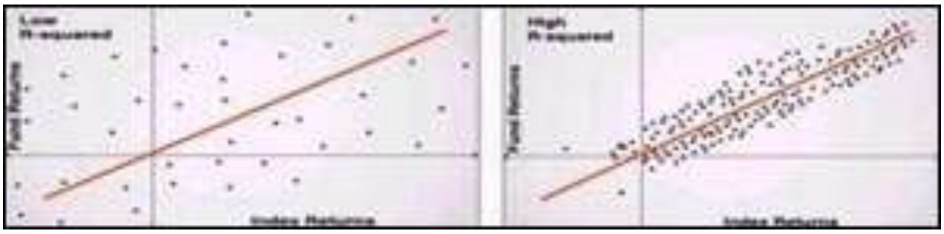

OBJECTIVES OF A FUND MANAGER

The main work of fund managers is to maximize the value of investor's money although this is not always possible as the result often depends upon the market conditions rather than on the wish of the fund manager. But how do the fund managers go for their work: Fund managers are the primary investment decision-makers in the stock market, and corporate executives are their primary sources of information. Meetings between the two are therefore central to stock market investment decisions but are surprisingly under-researched. There is little in the academic literature concerning their aims, content and outcomes.

II. LITERATURE REVIEW-

John G. McDonald (1974) examined performance of 123, mutual funds relating it to the given objective of every fund. The results indicate a positive relationship between objective and risk measures, i.e., risk increasing with the target becoming more aggressive. Rate of return generally with aggressiveness and needless to say, there is a positive relationship between return and risk. The relationship between objective and risk-adjusted indicates that funds that are more aggressive experienced better results, although only one-third of the funds do better that aggregate market [1]. A. R. Ippolito (1992) concluded that the investors prefer mutual funds which have a record of positive return within the past [2]. Sapar Rao Narayan &MadavaRavindran(2003) analyzed the performance of 269 mutual fund schemes during a market using relative performance index, risk-return analysis, Treynor's ratio, Sharp's ratio, Sharp's measure, Jensen's measure, and Fama's. The results obtained expressed that the majority of the mutual fund schemes within the sample extraordinary performed the investor's expectations by giving excessive return over expected return supported premium for systematic risk and total risk [3]. SathyaSwaroopDebasish (2009) analyzed the overall performance of 23 mutual fund schemes offered by six private sector mutual funds and three public sectors mutual funds supported as risk-return relationship models and help to measure it over the period of time of 13 years (April 1996 to March 2009). The analysis has been made on the basis of mean, beta, co-efficient of determination, Sharpe ratio, Treynor ratio and Jensen Alpha. The general analysis finalize that Franklin Templeton and Unit Trust of India are become the best performers and Birla Sun Life, HDFC and LIC mutual funds showing below-average performance when measured against the risk-return relationship models [4]. Madhusudhan V. Jambodekar (1996) conducted a study to measure the awareness of MFs among investors to identify the knowledge influencing the buying decision and therefore the factors effecting the selection of a specific fund. The study finds out that the Income Schemes and Open Ended Schemes of mutual funds are more preferred than Growth Schemes and Close Ended Schemes during the prevailing market conditions. Investors search for safety of Principal, Liquidity and Capital appreciation in the order of importance. Newspapers and Magazines are the primary source of data through which investors get to understand about MFs and Schemes and investor service maybe a major differentiating factor about the selection of mutual fund schemes [5]. Garg (2011) analyzed the performance of top ten mutual funds that was selected on the basis of previous years return. The study found the performance on the basis of return, standard deviation, beta as well as Treynor, Jensen and Sharpe indexes. The study also used Carhart's four-factor model to examine the performance of mutual funds. The results reveal that Reliance Regular Saving Scheme Fund has achieved the best final score [6]. Deepak Agarwal (2011), Mutual fund contributes to provide growth of financial markets to the global level and it is also one of the major sources for capital formation in growing economies. He analyzed the price mechanism of Indian Mutual Fund Industry, data related to the fund-manager as well as fund-investor levels. There has been incredible growth within the mutual fund industry in India, attracting large investments from domestic and foreign investors.

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III. METHODLOGY

In this diagnostic study, eight factor namely Oil prices, Inflation, Sub Prime Mortgage Crisis, Global and local market condition, Foreign Institutional Investors, War and Terrorism, Population and Government policies have been studied and analyzed.

Data for a study can be collected through primary and secondary sources. For this diagnostic study, the source of data is secondary. Various secondary sources (like internet, journals, articles, etc) have been utilized to extract the data. Data &literature derived from various sources have been acknowledged in the references section.

IV. OBJECTIVE

The thesis is being undertaken with the aim of doing a portfolio analysis on basis of logic and objectives-

- To understand the various reason responsible for fluctuation in the performance of Mutual Funds in the present volatile scenario.
- To understand the tools available for portfolio analysis.
- To analyze the portfolio of the investors and taking measures required in this meltdown situations.

V. FINDINGS

- From the review directed above, we can find and finish up the accompanying arrangements:
- The Indian economy is exceptionally reliable on different nations economy which shountries makes it less skilled and it is a prevention in the advancement of a country. The best model is Chinese economy. Despite the fact that China is additionally trustworthy on different countries yet reliance level is exceptionally low. That is the motivation behind why subprime contract emergency significantly affected Chinese economy.
- In present time India is running on the way of accomplishment and will before long turn into a super power. The main motivation of this achievement is its solid framework and strong economy. All speculation roads are performing very well yet there are a few possibilities of improvement which can be conceivable just through major monetary choice. With the genuine endeavors of government arrangements it is not any more a main issue of India.

ANNEXURE

Absolute Returns (in%) as on Feb 18, 2017

Equity Diversified		Asset Size (Rs. cr.)	NAV (Rs./Unit)	1wk	1mth	3mth	6mth	1yr	2yr	3yr
UTI Dividend Yield Fund (G)	★★★★★	877.57	14.56	-3.4	-1.6	4.6	-23.8	-34.8	-11.2	7.9
Birla SL Dividend Yield (G)	★★★★★	187.16	35.15	-2.9	-3.1	3.2	-20.5	-32.9	-17.5	-11.4
ICICI Pru Infrastructure (G)	★★★★★	2,552.67	16.42	-4.5	-1.8	8.6	-34.1	-45.7	-12.9	28.5
IDFC Imperial Equity (G)	★★★★★	133.75	10.22	-5.3	-2.5	5.4	-24.9	-36.2	-18.5	2.2
DSP-BR Top 100 Equity - RP (G)	★★★★★	943.29	49.50	-3.9	-2.0	2.4	-27.7	-36.8	-16.3	17.4

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Equity Tax Saving		Asset Size (Rs. cr.)	NAV (Rs./Unit)	1wk	1mth	3mth	6mth	1yr	2yr	3yr
Sundaram Tax Saver (G)	*****	515.17	22.20	-5.2	-6.1	-1.9	-29.9	-42.5	-21.1	-2.8
Religare India Tax Plan (G)	*****	51.25	7.74	-3.9	-3.6	2.2	-26.9	-44.9	-21.8	--
Reliance.Tax Saver (ELSS) (G)	*****	1,273.36	9.23	-4.3	-5.1	-1.2	-30.0	-44.8	-38.5	-21.5
Fidelity Tax Advantage (G)	****	683.00	9.34	-3.6	-2.3	1.9	-32.1	-44.0	-28.1	-6.6
Franklin India Tax Shield (G)	****	369.37	92.87	-4.9	-3.5	-0.1	-32.3	-44.6	-29.5	-14.0
Monthly Income Plan		**Asset Size** (Rs. cr.)	**NAV** (Rs./Unit)	**1wk**	**1mth**	**3mth**	**6mth**	**1yr**	**2yr**	**3yr**
Birla SL MIP II-Savings 5 (G)	*****	29.99	14.88	-0.3	-2.4	4.2	6.9	17.4	28.2	36.7
Reliance MIP (G)	*****	170.72	15.45	-1.5	-3.9	5.3	6.3	5.4	10.7	24.4
Tata Monthly Income Fund (G)	*****	21.27	16.38	-0.8	-1.1	5.3	4.3	3.6	14.0	19.2
Birla Sun Life MIP (G)	****	85.31	21.04	-0.3	-0.8	8.3	4.4	-1.6	9.9	19.6
HSBC MIP - Savings Plan (G)	***	109.07	14.93	-0.4	-2.0	5.9	1.4	-2.8	12.4	25.3
Balanced		**Asset Size** (Rs. cr.)	**NAV** (Rs./Unit)	**1wk**	**1mth**	**3mth**	**6mth**	**1yr**	**2yr**	**3yr**
UTI Mahila Unit Scheme (G)	*****	84.86	30.29	-0.5	-0.9	2.4	-3.1	-5.2	9.7	39.0
UTI CRTS 81(G)	*****	339.00	119.53	-0.6	-0.4	5.7	-2.9	-7.6	9.2	2.8
UTI Childrens Career Balanced	****	2,153.37	12.73	-1.1	-1.4	2.7	-9.1	-17.1	-6.7	11.6
Birla Sun Life Balance (G)	****	82.05	25.37	-2.6	-2.1	5.7	-14.1	-21.0	-11.0	10.2
DSP-BR Balanced Fund (G)	****	417.93	34.86	-2.5	-1.7	0.4	-24.0	-31.1	-10.8	11.6
Debt - Floating Rate		**Asset Size** (Rs. cr.)	**NAV** (Rs./Unit)	**1wk**	**1mth**	**3mth**	**6mth**	**1yr**	**2yr**	**3yr**
LIC MF Floating Rate Fund (G)	*****	743.23	14.21	0.1	0.8	2.3	[illegible]	10.0	19.8	28.7
Kotak Floater LTP (G)	*****	1,839.13	13.78	0.1	0.6	2.3	5.0	9.1	19.1	27.2
HDFC Floating Rate Inc -LTP(G)	*****	111.56	14.61	0.2	0.7	2.4	4.8	9.8	18.8	26.3
Tata Floater Fund (G)	****	7,888.17	12.97	0.1	0.6	2.1	4.7	9.3	18.6	26.7
UTI Floating Rate - STP (G)	****	284.32	1,416.92	0.1	0.6	2.2	4.9	9.8	16.8	24.8

VI. CONCLUSION

The results showed that in large cap fund the investors get better return in the initial stage as comparison to long term but the future prospects in the large cap funds is not beneficial for the shorter period so the investors can hold funds for the long term i.e. minimum 3 years. In mid cap fund the investors get better return in the mid-term period as comparison to short-term but the future prospects in the mid cap funds is not beneficial for the mid-term so the investors can hold for the long term (5 years). In the small cap fund the investors get better return in the mid-term and long term but the risk is high and the future prospects in the small cap funds is beneficial in the long term period.