

Mutual Funds In India (Conceptual framework)

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Introduction:

Over the past two decades, mutual funds have been among the fastest growing institutions in the world. At the end of 1980, they managed less than \$150 billion, but this figure had grown to over \$4 trillion by the end of 1997—a number that exceeds aggregate bank deposits (Robert C. Pozen, 1998). Indeed, almost 50 percent of households today invest in mutual funds (Investment Company Institute, 2000). The most important and fastest-growing part of this industry is funds that invest in stocks, particularly actively managed ones. The explosion of newsletters, magazines, and such rating services as Morningstar attest to the fact that investors spend significant resources in identifying managers with stock-picking ability. More important, actively managed funds control a sizeable stake of corporate equity and play a pivotal role in the determination of stock prices. A better understanding of this issue would naturally be useful for investors, especially in light of the massive inflows that have increased the mean size of funds in the recent past. At the same time, the issue of the persistence of fund performance depends crucially on the scale-ability of fund investments. With progressive liberalization of economic policies, there has been a rapid growth of capital market, money market and financial services industry including merchant banking, leasing and venture capital. The main objective of this research is to examine the importance and growth of mutual funds and evaluate the financial and operating performance of mutual fund industry in India and suggest some measures to make it a successful scheme in India.

Origin of Mutual Funds

The history of mutual funds dates back to 19th century when it was introduced in Europe, in particular, Great Britain. Robert Fleming set up in 1868 the first investment trust called Foreign and Colonial Investment Trust which promised to manage the finances of the moneyed classes of Scotland by spreading the investment over a number of different stocks. This investment trust and other investment trusts which were subsequently set up in Britain and the US, resembled today's close-ended mutual funds.

Concept of Mutual Fund

A mutual fund is an investment company or trust that pools the resources from thousands of its

shareholders or unit holders who share common investment goal and then diversifies its investments into different types of securities in order to provide potential returns and reasonable safety. In the period of globalization rapid price fluctuations are occurring for the assets like equity shares, bonds, real estate, derivatives etc., Secondly, an individual also finds it difficult to keep track of ownership of his assets, investments, brokerage dues and banks transactions, etc. In this context, a mutual fund is the solution to all these situations. Mutual funds help the small and medium size investors to participate in today's complex and modern financial scenario. Investors can participate in the mutual fund by buying the units of the fund. The income earned through these investments and capital appreciation realized by the schemes is shared by its unit holders in proportion to the number of units owned by them. In India, the Mutual Fund industry started with the setting up of Unit Trust of India in 1964, as a single State Monopoly. Twenty-three years later Public Sector banks and financial institutions were permitted to establish Mutual Funds in 1987. The Industry was brought under the control of SEBI and opened for private sector participation in 1993.

Mutual Fund History

The end of millennium marks 36 years of existence of mutual funds in this country. The ride through these 36 years is not been smooth. Investor opinion is still divided. While some are for mutual funds others are against it. UTI commenced its operations from July 1964. The impetus for establishing a formal institution came from the desire to increase the propensity of the middle and lower groups to save and to invest. UTI came into existence during a period marked by great political and economic uncertainty in India. With war on the borders and economic turmoil that depressed the financial market, entrepreneurs were hesitant to enter capital market. The then Finance Minister, T.T. Krishnamachari set up the idea of a unit trust that would be "open to any person or institution to purchase the units offered by the trust. However, this institution as we see it, is intended to cater to the needs of individual investors, and even among them as far as possible, to those whose means are small." His ideas took the form of the Unit Trust of India, an intermediary that would help fulfill the twin objectives of mobilizing

retail savings and investing those savings in the capital market and passing on the benefits so accrued to the small investors. UTI commenced its operations from July 1964 " with a view to encouraging savings and investment and participation in the income, profits and gains accruing to the Corporation from the acquisition, holding, management and disposal of securities."

Conclusion:

In this contemporary world many financial institutions are mushrooming very fast and offer new products and services to the investors and persuade them to invest them by providing incentives and facilities in terms of flexible investment options and withdraw plan. Mutual

funds come into this category. Mutual funds industry has grown up by leaps and bounds, particularly during the last two decades of the 20 th century. In India, the Mutual Fund industry started with the setting up of Unit Trust of India in 1964, as a single State Monopoly. Twenty-three years later Public Sector banks and financial institutions were permitted to establish Mutual Funds in 1987. The Industry was brought under the control of SEBI and opened for private sector participation in 1993. The entry of the private has injected a sense of competition and the industry has been witnessing a structural transformation from a public sector monopoly to monopolistic industry.

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