A study on the importance of mutual funds as an investment tool

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Abstract. Mutual Funds play an important role in helping small, medium and large savers across the globe by reducing risk and increasing return. Mutual Funds have contributed in a big way in the transformation of Indian economy by setting a platform through the financial markets. The objectives of the present study is to analyse the growth of Mutual Fund Industry in India. The data used for the study is secondary and descriptive method is used in analysis. It is found that MF's have grown significantly. The reasons behind their growth have been the tax benefits, the growth strategies and SEBI as a regulator has played a pivotal role in ensuring transparency in the mechanism.

Keywords. Mutual Funds, Growth, Indian economy

1 Introduction

The increasing emphasis on domestic savings and their efficient mobilization for profitable investments has elevated the significance and scope of mutual fund operations. As crucial financial intermediaries, mutual funds play a pivotal role in enabling both small and large savers, nationally and internationally, to participate in and benefit from the growth of the capital market. This alternative vehicle of intermediation facilitates the interaction between suppliers and users of investable financial resources, gaining popularity in India and abroad due to its potential for higher investor returns, relatively low risk, and cost-effectiveness.

In the transformation of the Indian economy, mutual funds contribute not only as financial intermediaries but also as pace-setters, playing a key role in mobilizing and efficiently allocating investable funds through markets. Despite their considerable growth potential, realizing it fully requires the creation and marketing of innovative products and the formulation of distinct marketing strategies. Additionally, to enhance mutual fund penetration, addressing the underdeveloped equity culture in the country is crucial, emphasizing the importance of investor education.

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Mutual funds was started in the 19th century in Great Britain, when Robert Fleming established the first investment trust, which is the 'Foreign and Colonial Investment Trust', in 1868, which was used to manage the finances of Scotland's moneyed classes. The concept is much like today's close-ended mutual fund schemes. The U.S. had implemented its first mutual fund, known as Massachusetts Investors Fund, in 1924, however India's mutual fund industry started in 1963 with the formation of 'Unit Trust of India'.

Since its implementation, the mutual funds Industry in India has had a big impact on the country's financial sector. Over time, there has been significant progress and standardization in a variety of areas. involving the provision of goods and services, legal structures, and the rise of many domestic and international private sector funds. The sector has progressed from traditional stock and debt funds to a variety of products, such as capital protection-oriented funds, exchange-traded funds (ETFs), and gold funds (GF) (Fozia, 2013).

2 Objectives of Mutual Funds

2.1 Opportunity for Small Investors:

One of the key goals is to create a mechanism for small investors to participate in the money and capital markets. Providing more access to investing options.

2.2 Catalyst for modest Savings:

The study examines how the mutual funds industry may channel modest savings towards stock market activities, leading to increased capital market engagement.

2.3 Mobilizing Savings from Non-Resident Indians (NRIs):

The goal is to assess the industry's involvement in mobilizing savings from NRIs, taking into account mutual fund participation globally.

2.4 Tax Benefits:

The study evaluates the impact of tax incentives on investor behaviour.

3 Objectives of the present study:

3.1 Growth and Development Analysis:

This study examines the growth and development of the mutual funds business in India and provides insights into its trajectory over time.

3.2 Performance Evaluation:

Evaluate mutual fund schemes to ensure they meet investor expectations and financial objectives.

3.3 Market Timing Analysis:

Evaluating mutual funds' capacity to predict market circumstances and make informed decisions.

3.4 Suggesting Development Strategies:

The study's conclusions indicate ways to improve the mutual fund business in India.
The context of the study acknowledges the pivotal role played by the mutual fund industry in instilling confidence among investors, especially during periods of market volatility. The industry is pivotal for upholding the stability of India's capital market as it shows its resiliency, for example, it becomes net buyers during the downturns. Request Mapping a Hardship License From its inception as a vehicle for retail investors, mutual funds have evolved into dominant players in the broader financial landscape, reflecting their enduring impact and importance.

Individual investors face a lot of difficulties to track of their investments, including brokerage fee and bank transaction costs, in the current economy which is globalized, where financial assets such as stocks, bonds, and physical assets undergo sharp price swings. A better way to deal with this is through mutual funds, which provides regular investors with the chance to diversify their money across different industries and businesses and many other domains. diversification is essential aspect in order to assure prospective returns with a fair level of safety.
Due to its ability to provide a diversified portfolio under professional management at a relatively low cost, mutual funds are considered the ideal investment option for ordinary people. It is possible to invest in mutual funds with as little as couple of hundred rupees. The rising importance of mutual funds stems from changing economic conditions, reduced interest rates on bank deposits, inherent volatility of stock markets, and a problem. The challenges related to direct investments in the capital markets is one of the biggest challenge that all the investors have to face. Mutual funds play a major role as they help in financial intermediation by facilitating the growth of the capital markets and the financial sector as a whole. Their operations are majorly noted in both money markets and capital markets where they have sizable investments. The origins of mutual funds can be traced back over many centuries, when there were early forms of risk sharing mechanisms that we see today.
Mutual funds in India began in 1964 when Unit Trust of India (UTI) was established. Before 1987, UTI remained the only player. After that public sector banks and financial institutions were allowed in as well, private operators entered in 1993 following which foreign firms could establish mutual funds in India The country's mutual funds date back to an Act amended from 1963 which put up UTI then followed by a change in 1983 that allowed banks engage in mutual fund activities.
The establishment of their own mutual funds by public sector banks like SBI, Punjab National Bank, Canara Bank and financial institutions like GIC and LIC in response to these regulatory changes is a notable happening in the financial services sector. This transformation underlines the flexible and abundant adoption of mutual funds as a preferable choice for investment among some people.

3.5 Types of Mutual Funds

The mutual fund industry of India has seen substantial growth from when it started in 1964 with the establishment of Unit Trust of India (UTI) by an act of parliament, It's operations originally ruled by 1963's UTI Act, the industry began to attract increased participation through the entrance of the public sector commercial banks and financial institutions in June 1987. Nevertheless, due to non-existence of consistent policy direction, various entities like UTI ,RBI, and the industry of Finance released separate rules.

In June 1990, consolidated guidelines were introduced by the government and underwent significant revamping in February 1992 to embrace competition, transparency, and efficiency, in order to establish a coherent approach. The turning point came in 2003 when Unit Trust of India gave up its unique statutory powers, restructured itself like other Mutual Funds and embraced identical regulations by the Security and Exchange Board of India (SEBI) thereby making them homogenous with others. This ensured uniformity and transparency.

When it comes to mutual fund divisions, there exist different classes which are designed in relation to particular goals of investing and different levels of risk. They are the Money Market Mutual Funds that strive for short-term, low-risk instruments to ensure stability as well as liquidity among others like Growth oriented funds with long term growth orientation (Muraguri & Nderitu, 2010). Debt Mutual funds category includes Income funds which mainly focus on creation of monthly returns using the fixed income securities.

Balanced Funds strikes down a balance between stocks and bond selling both capital appreciation and income generation however Specialized Funds seeks to attain specific sectors or themes and offshore Funds ensures international diversification whereas Tax-Free Funds buy for tax-free returns and Index Funds duplicates market index performance. The idea of client community funds are unusual it could be funds that are made for specific demographics and sector funds mainly specializes on different industries according to the sectors there are. Furthermore, Mutual fund industry is regulated by SEBI so that there is protection of investors' rights and market integrity is maintained which is very important thing. Overall, several fund types assist in addressing various investor preferences and corresponding investment objectives.

3.6 Performance of mutual funds:

Mutual funds act as mediators, bringing together individuals looking to invest in bonds and other assets. They have developed as an important method for raising savings, notably from the household sector. The Net Asset Value (NAV) determines the value of units, which represent the amount invested in a mutual fund. Mutual funds' allure results from freedom to dictate investment amounts and withdraw cash after a stipulated period. Small investors adore mutual funds since they give them an opportunity to invest in a fund run by experts. One thing I like most about mutual funds has to do with how much someone can afford when buying them and even taking out money at the end of it all because it has no strings attached yet some limits exist on this offer too. In addition, transparency ensures that shareholders keep track of unit purchases made by their money managers while also being able to determine what ranges would be suitable for them regarding investments as it is important to evaluate mutual fund performance by examining other options and looking at their relative strengths and weaknesses. These rules took the place of the 1993 guidelines that dealt with limitations and directives introducing more requirements concerning revealing information and responsibilities.

4 Conclusion

The mutual fund industry in India has been with landmark product diversification and market expansion. Originally known as UTI Act in 1964, it has now become significant to our country's financial world, Thanks largely to high levels of transparency brought by SEBI and other regulatory bodies as this has helped a lot in making things uniform. Mutual funds are available in different types to meet a variety of investor preferences and risk appetites showing that the mutual fund industry is able to adapt and innovate. This explains why savings are so important to activate and also allow investment possibilities for small scale investors. Some of such characteristics as resort to fund source among non-residents; avenues for small investors to invest their monies or save are what gives these funds these objectives. Mutual funds are provided with an edge as a premier investment choice due to alluring growth strategies and tax incentives. The history dates back to 19th century and even though there are challenges of lack equity culture and inadequate investor education, there are still opportunities for growth in this sector.

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