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Logistics Distribution Channels Operations Among Investors Of Mutual Funds

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ABSTRACT: A mutual fund is an investment that pools your money with the money of an unlimited number of other investors. In return, you and the other investors each own shares of the fund. The fund's assets are invested according to an investment objective into the fund's portfolio of investments. Aggressive growth funds seek long-term capital growth by investing primarily in stocks of fast-growing smaller companies or market segments. Aggressive growth funds are also called capital appreciation funds". The risk return trade-off indicates that if investor is willing to take higher risk then correspondingly he can expect higher returns and vice versa if he pertains to lower risk instruments, which would be satisfied by lower returns. For example, if an investors opt for bank FD, which provide moderate return with minimal risk. But as he moves ahead to invest in capital protected funds and the profit-bonds that give out more return which is slightly higher as compared to the bank deposits but the risk involved also increases in the same proportion. Thus investors choose mutual funds as their primary means of investing, as Mutual funds provide professional management, diversification, convenience and liquidity. This is because the money that is pooled in are not invested only in debts funds which are less risky but are also invested in the stock markets which involves a higher risk but can expect higher returns. This study describes the various mutual funds and its distributions among investors.

Keywords: Mutual Funds, Portfolio, Risk, Liquidity, Fund Manager

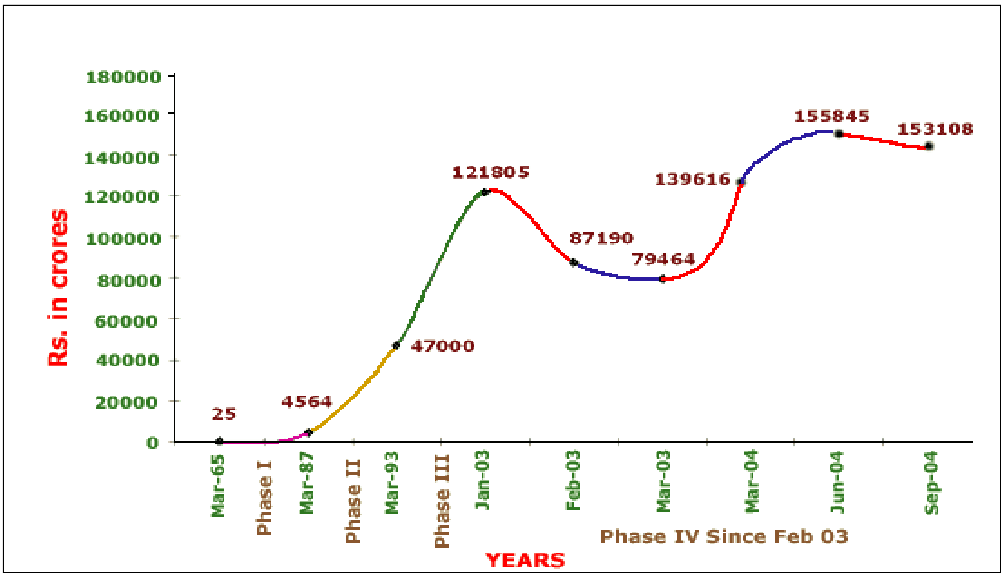
1. INTRODUCTION

The first introduction of a mutual fund in India occurred in1963, when the Government of India launched Unit Trust of India(UTI).Until 1987,UTI enjoyed a monopoly in the Indian mutual fund market. Then a host of other government-controlled Indian financial companies came up with their own funds. These included State Bank of India, Canara Bank, and Punjab National Bank. This market was made open to private players in1993,as a result of 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 later merged with Franklin Templeton.

CONCEPT

A mutual fund is a common pool of money into which investors place their contributions that are to be invested in accordance with a stated objective. The ownership of the fund is thus joint or "mutual" the fund belongs to all investors. A single investor's ownership of the fund is in the same proportion as the amount of the contribution made by him or her bears to the total amount of the fund. Mutual Funds are trusts, which accept savings from investors and invest the same in diversified financial instruments in terms of objectives set out in the trusts deed with the view to reduce the risk and maximize the income and capital appreciation for distribution for the members.

Fig.1 The graph indicating the growth of assets under management over the years.



MUTUAL FUNDS DISTRIBUTION CHANNELS

Investors have varied investment objectives and can be classified as aggressive, moderate and conservative, depending on their risk profile. For each of these categories, asset management companies (AMCs) devised different types of fund schemes, and it is important for investors to buy those that match their investment goals.

Funds are bought and sold through distribution channels, which play a significant role in explaining to the investors the various schemes available, their investment style, costs and expenses. There are two types of distribution channels-direct and indirect. In case of the former, the investors buy units directly from the fund AMC, whereas indirect channels include the involvement of agents. Let us consider these distribution channels in detail.

Direct channel

This is good for investors who do not need the advisory services of agents and are well-versed with the fundamentals of the fund industry. The channel provides the benefit of low cost, which significantly enhances the returns in the long run.

Indirect channel

This channel is widely prevalent in the fund industry. It involves the use of agents, who act as intermediaries between the fund and the investor. These agents are not exclusive for mutual funds and can deal in multiple financial instruments. They have an in-depth knowledge about the functioning of financial instruments and are in a position to act as financial advisers. Here are some of the players in the indirect distribution channels.

a) Independent financial Advisers (IFA): These are individuals trained by AMCs for selling their products. Some IFAs are professionally qualified CFPs (certified financial planners).They help investors in choosing the right fund schemes and assist them in financial planning. IFAs manage their costs through the commissions that they earn by selling funds.

b) Organized distributors: They are the back bone of the indirect distribution channel. They have the infrastructure and resources for managing administrative paper work, purchases and redemptions. These distributors cater to the diverse nature of the investor community and the vast geographic spread of the country by establishing offices in rural and semi urban locations.

c) Banks: They use their network to sell mutual funds. Their existing customer base serves as a captive prospective investor base for marketing funds. Banks also handle wealth management for their clients and manage portfolios where mutual funds are one of the asset classes. The players in the indirect channel assist investors in buying and redeeming fund units.

They try to understand the risk profile of investors and suggest fund schemes that best suits their objectives. The indirect channel should be preferred over the direct channel when investors want to seek expert advice on the risk-return mix or need help in understanding the features of the financial securities in which the fund invests as well as other important attributes of mutual funds, such as benchmarking and tax treatment.

Fig.2 WORKING OF MUTUAL FUNDS

The mutual fund collects money directly or through brokers from investors. The money is invested in various instruments depending on the objective of the scheme. The income generated by selling securities or capital appreciation of these securities is passed on to the investors in proportion to their investment in the scheme. The investments are divided into units and the value of the units will be reflected in Net Asset Value or NAV of the unit. NAV is the market value of the assets of the scheme minus its liabilities. The per unit NAV is the net asset value of the scheme divided by the number of units outstanding on the valuation date. Mutual fund companies provide daily net asset value of their schemes to their investors. NAV is important, as it will determine the price at which you buy or redeem the units of a scheme. Depending on the load structure of the scheme, you have to pay entry or exit load.

STRUCTURE OF A MUTUAL FUND:

India has a legal frame work within which Mutual Fund have to be constituted. In India open and close-end funds operate under the same regulatory structure i.e.as unit Trusts.A Mutual

Fund in India is allowed to issue open-end and close-end schemes under a common legal structure. The structure that is required to be followed by any Mutual Fund in India is laid down under SEBI (MutualFund) Regulations,1996.

Fig.3 Mutual Fund structure

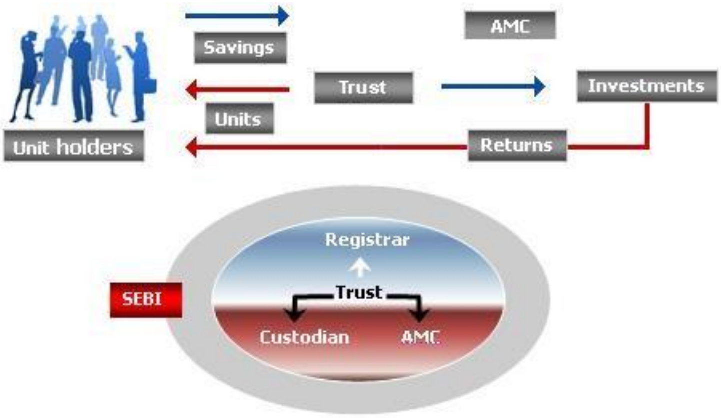


Fig.4 Market Share

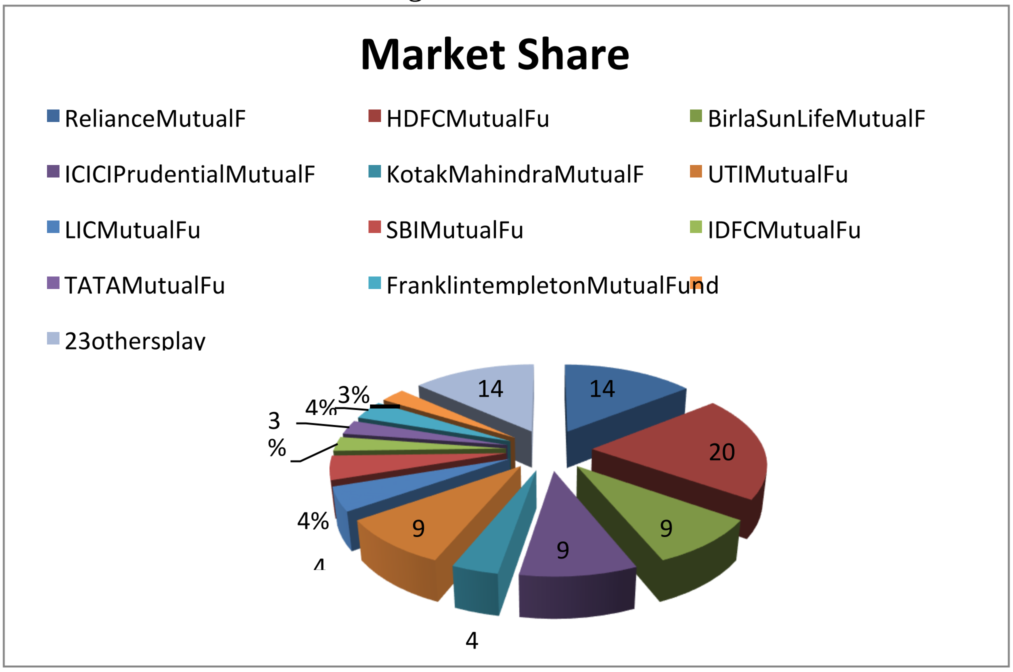
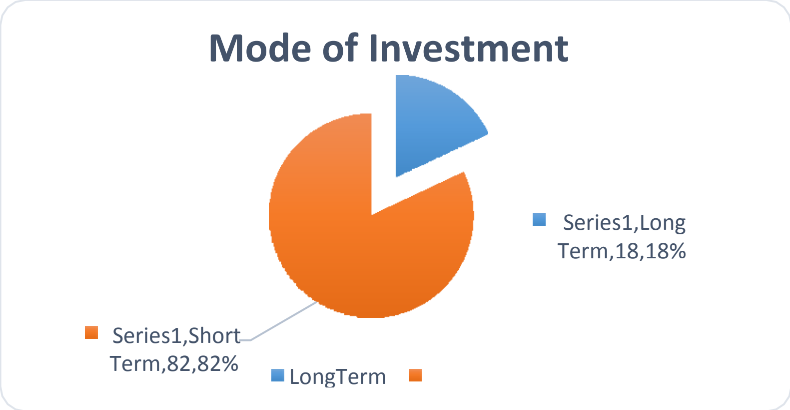


Fig.5 Analyzing data according to mode of investment

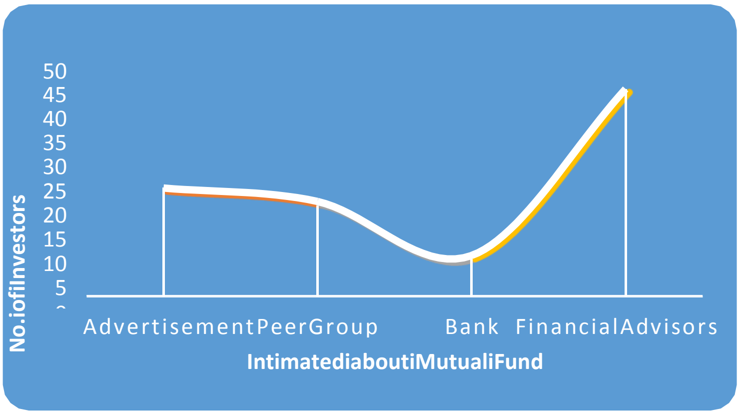


It can be clearly stated from the above Figure that 82% of the investors like to invest in SIP, as the investor feels that they are more comfortable to save via SIP than the Longterm.While18% of the investors find SIP as very burdensome, and they are more reluctant to save in Long term investment.

Fig.6 Analyzing data according to objective of investment

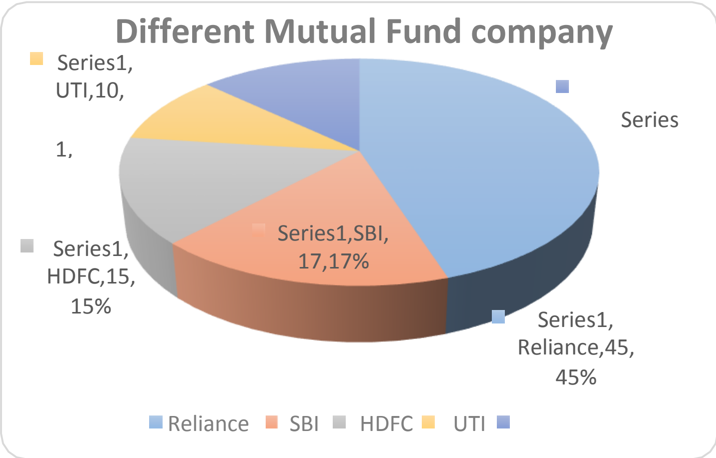
Here we see that 36% of the investor's objectives are to preserve the principal amount, so that it can be used as a savings for the future period. While 22% investors invest to get derive their current income through investing in Mutual Funds. While15% and 17% of the investors invest to get a conservative as well as aggressive growth.

Fig.7 Analyzing data according to from where they came to know about Mutual Fund.



Here from the Line Graph it can be clearly stated that around 46% of the investors came to know the benefits of Mutual Fund from Financial Advisors. According to the suggestions given by the financial advisors, people use to choose Mutual Funds Scheme. Then Secondly,24% and 21% of the people used to know from Advertisement and Peer group respectively. Lastly 9% of the investors do invests after being intimated by the Banks about the benefits of Mutual Funds.

Fig.8 Analyzing data according to investors choice of investing in different Mutual Fund Companies.



From this above Pie Chart it can be clearly stated that 45%, 17% of the people like to invest in large cap companies where return is comparatively less but risk is low thus they invest in Reliance, SBI respectively.15%,10% of the people like to invest in Mutual Fund Companies like HDFC, UTI, etc. where risk is slightly higher than the above two mentioned companies as well as return is also slightly high 13% of the investors like to invest in the Small Cap's and Mid Cap's companies.

FINDINGS

People employed in Private sectors and Business man is more likely to invest in Mutual Funds, than other people working in other professions. Generally, investors whose monthly income is above Rs.20001-30000 are more likely to invest their income in Mutual Fund, to preserve their savings of at least more than 20%. People generally like to save their savings in Mutual Fund, Fixed Deposits and Savings Account. Many people came to know about Mutual Fund from Financial Advisors, Advertisement as well as from their Peer group, and they generally invest in the Mutual Fund by taking advices from their Legal Advisors. Investors generally like to invest in Large Cap Companies like Reliance, SBI, etc. to minimize their risk. The most popular medium of investing in Mutual Fund is through SIP and more over people like to invest in Equity Fund though it is a risky game. The main objective of most of the investors is to preserve their income.

2. CONCLUSION

With the emergence of tough competition in this sector mutual funds are launching a variety of schemes which caters to the requirement of the particular class of investors. Risk takers forgetting capital appreciation should invest in growth, equity schemes. Investors who are in need of regular income should invest in income plans. The stock market has been rising for over three years now. This in turn has not only protected the money invested in funds but has also to help grow these investments. This has also instilled greater confidence among fund investors who are investing more into the market through the MF route than ever before. Reliance India mutual funds provide major benefits to a common man who wants to make his life better than previous. The mutual fund industry as a whole gets less than 2 percent of household savings against the 46 percent that go into bank deposits.

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