Origin and Development of Mutual Fund

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Abstract :

The risk involved in holding financial security is given by the variance of the return associated with the security. The risk is more prominent a single individual investor who acquires the security. The Individual investor can reduce the risk of return by diversifying his portfolio. But may individual investors do not have Financial capability to go for the diversification of their portfolio nor do they have the necessary expertise to diligently select the portfolio. The rick involved in this investment exercise is managed efficiently; if a group of small investors come together, pool up their resources and invest in diversified portfolio. There are mutual fund and asset management companies which pool money from the small individual investors and invest in diversified portfolios. Unit Trust of India was the first mutual fund company set up by the Govt. in 1964 by way of an Act.

The culture of investing in mutual fund is more prevalent in developed countries. It is catching up in India with more and more investors with disposable income to invest looking for easy and less costly avenues to satisfy their need for capital growth. The Industry in growing rapidly in India also. The investment by mutual fund companies is in equity stocks, bonds and money market securities or in combination of any of these securities. Mutual fund companies on their own conduct research in the investment markets and develop expertise over a period of time. Their investors who invest in mutual fund can avail this expertise for their fund management. The investment in the funds is made so easy by the mutual fund companies that investors can start with very low outlay of resources, can enter or exit at their will, with complete liquidity at any time guaranteed.

Keywords : Investment, Financial, Guarantee, Investors.

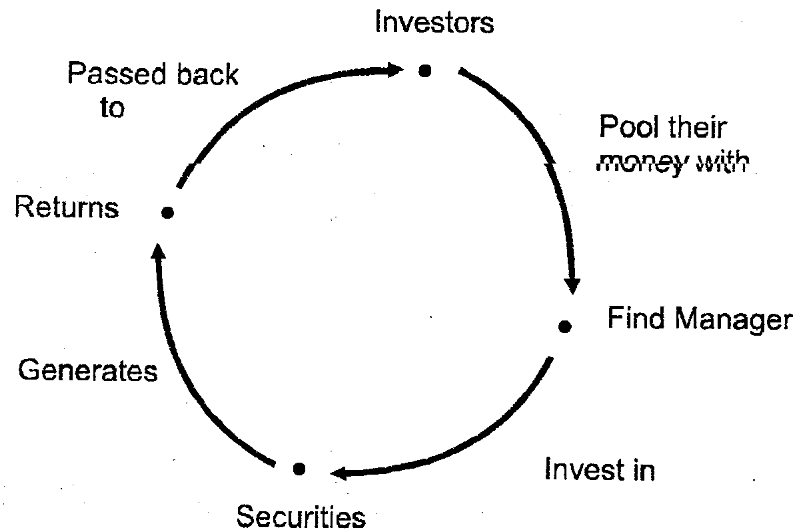
Introduction :

The concept of pooling money for investment purposes started in the mid 1800s in Europe. The first pooled fund in the U.S. was created in 1893 for the faculty and staff of Harvard University on March 21st 1924 three securities executive from Boston Pooled their money to create the first mutual fund in the world known as the Massachusetts investors Truest. Unit Trust of India was the first Mutual Fund to be set up in India in the year 1963. In early 1990s, Government allowed public sector banks and Institutions Mutual Fund come into existence.

The mutual fund industry in India began with the setting up of the Unit Trust in India (UTI) in 1964 by the Government of India. During the last 36 years, UTI has grown to be a dominated player in the Industry with assets of over Rs. 76,547 crores as on March 31, 2000. The UTI is governed by a special legislation, the Unit Trust of India Act; 1963. In 1987 Public Sector banks and Insurance Companies were permitted to set up mutual funds and accordingly since 1987, 6 public sector banks have set up mutual funds. Also, to the two Insurance Companies Life Insurance of India and GIC established mutual funds. Securities Exchange Board of India (SEBI) formulated the mutual fund (Regulation) 1993, which for the first time established comprehensive regulatory framework for the mutual fund industry since then several mutual funds set up by the private and joint sectors.

Mutual Funds Units are investment vehicles that provide a means of participation in the stock market for people who have neither the time nor the money not perhaps the expertise to undertake direct investment in equities successfully. On another level, they also provide a route into specialist markets where direct investment often demands both more time and more knowledge than an investor of his financial adviser possess.

The basis idea is simple : A large number of investors pool their money in order to obtain a spread of professionally managed stock exchange investment that they cannot obtain individually. The advantage is that the investor in a mutual fund is taking much less of a risk than a direct equity investor, because increases in the number of stock held obviously reduces the effect that any one stocks can have on the overall performance of the equity portfolio professional management has two main benefits : it provides specialist investment expertise which should ensure greater success than the inexperienced investor can achieve on his own and it reduces the administrative burden of investment.



Different types of mutual Funds :

(1) Money Market Funds: Investment is in Money Market Instruments – mostly T-Bills.

(2) Bond / Income Funds: Bond, Income and Fixed-income funds invest primarily in Government and Corporatte debt instruments. Fund holdings may appreciate in value, the primary objective of these funds is to provide a steady cash-flow to investors.

(3) Balanced Funds : Investment is done in a combination of fixed –income securities and equities. By this the funds provide a "balanced" mixture of safety, income and capital appreciation.

(4) Equity Funds : The funds that look for growth invest in equity. Long term capital gains are aimed at. There are many types of equity funds as there are many different types of equities.

(5) Global / International Funds : International Fund invests only outside the home country. Global funds invest anywhere in the world including the home country.

(6) Specialty Funds : Sector, Regional Funds invest only in certain sector of the economy such as Financial, Technology and Health etc. Here the risk mitigation is not done as the diversification by spread is not done.

(7) Index Funds : This type of mutual fund replicates the performance of a market.

A mutual fund divided into equal portfolios called units. The price of units is calculated regularly by the manager rather than being determined by supply and demand in the market the prices are quoted for units the higher (offer) price being the price the investor pays to by units

and the lower (bid) price being the price he will receive for units sold back to the managers.

Objective :

There are following some objective of mutual fund :

- Professional Management of money which an individual investor does not have the know how of.
- Liquidity as a mutual fund allows units (holdings) to convert into cash.
- Economics of scale – Large volumes – low transaction costs.
- Diversification of portfolio and risk management.
- East to understand and invest.

Hypothesis :

The credit supplied by the LIC Mutual funds is sufficient for economic development.

Discussion :

There are the schemes / Funds which invest in the securities of only those sectors of Industries as specified in the offer documents e.g. pharmaceuticals software fast moving consumer goods petroleum stocks etc. Their returns in these funds are dependent on the performance of the respective sectors / industries. While these funds may give higher returns they are more risky compared to diversified funds. Investors need to keep a watch on the performance of these sectors / industries and must exit at appropriate time. They may also seek advice of an expert.

Conclusion :

Mutual fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified professionally managed basket of securities at a relatively low cost.

Mutual Funds are mechanism for pooling the resources of different investors and investing the collected funds. The risk involved in this investment exercise is management efficiently, if a group of small investors come together, pool up their resources and invest in the diversified portfolio.

There are mutual fund and asset management companies which poor money from the small individual investors and invest in diversified portfolios. Unit Trust of India was the first mutual unit Trust of India was the first mutual unit trust of India was the first mutual fund company set up by the Government in 1964 by way of an Act.

LIC Mutual fund has appointed stock holding corporation of India as the custodian for the scheme to take delivery of all properties belonging to the mutual fund scheme and hold them in custody and separately from the asset of the custodian and their other clients.

Suggestions :

Mutual fund is often seen that a young man lives quite happily and spends money freely on the objects of his pleasure in his youth when his earning capacity is considerable without saving much for his old age. When he becomes old the funds that his income has either stopped or fallen considerably but he really requires requires a larger amount to stick to his old standard of living. To such a man, life insurance provides adequate and suitable protection. But it is not old age alone which makes a person a victom financial stringency. When death lays hericy hands on earning member of the family it finds / itself in narrow circumstances and if the deceased be the only bread – winner of the family, utter destitution is surely in store for it. A life Insurance policy is a great protection against such an eventuality.

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