

Role of Mutual Fund in Indian Stock Market

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ABSTRACT - The mutual fund investments have emerged as important players in the Indian equity marketing the recent past. This research makes an attempt to understand whether a relationship exists between Mutual Fund investment and Equity Market returns in India. The past ten years of data was analyzed with appropriate statistical tools to prove the impact of Mutual Fund Investments in Indian Equity Market. Markets become more efficient with the growing presence of institutional investors who predominantly go by fundamentals. The popular belief that fund inflows and returns are positively related (Warther, 1995) is also proved.

Key words - Securities; Stock market: Investor's: Savings

1. INTRODUCTION OF THE STUDY

A Mutual Fund is a trust that pools the savings of a number of Investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciations realized are share by its unit holder in proportion to the number of units owned by them. Thus a 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. This study is to examine the relations between mutual fund investments and the share market volatility. It will test whether there is any impact of mutual fund investment in the equity market. The period 2000-2009 is an important decade for the Indian Mutual Fund Industry. While the Industry got opened up for private and international fund houses in the 90's it was during the last decade when the industry actually saw the emergence of the Mutual Funds as an industry to reckon with in the financial services space and more importantly started getting noticed by Investors across the length and breadth of the country and being used by them for managing their investments, In the financial year of 2009 the assets under management is Rs. 4, 17,300. The year 2010, brings along a new decade and it is appropriate for us to look at the decade that went by and also identify the trends and changes that will not only provide us insights of what went by but also will give an understanding of what is in store.

2. NATURE OF MUTUAL FUNDS

The basis of a mutual fund is the 'pooling' concept. In other words, mutual funds pool money from a cross-section

of investors by issuing units, construct a diversified portfolio of stocks, bonds and other investment instruments and invest the same in the capital market. But before they can mobilize resources and invest them in the capital market, they have to be registered with the regulating authority of the country. The primary objective of all mutual funds is to provide better returns to investors by minimizing the risk associated with capital market investment. Naturally, the degree of risk associated with the expected returns and the associated benefits differs. All mutual funds aim at achieving one or more of the following.

3. REVIEW OF LITERATURE

A study has examined the dynamic interaction between mutual fund flows and security Returns and between mutual fund flows and volatility. The results based on the Contemporaneous relationship using daily data suggest that a positive relationship exist between stock market returns and mutual fund flows measured as stock purchases and Sales. (1) A question to find whether our markets are being dominated by institutional investors is answered. The regression results show that the combined might of the FIs and mutual funds are a potent force. The Granger causality test has showed that the mutual funds in fact lead the market rise or fall this may actually raise questions on the market efficiency but on the contrary, markets become more efficient with the growing presence of institutional investors who predominantly go by fundamentals. (2) The reform process has sent signals to a wave of changes in savings and investment behavior adding a new dimension to the growth of financial sector. The Indian financial system in general and the Mutual Fund (MF) industry in particular continue to take turnaround from early 1990s. During this period, mutual funds have pooled huge investments for the corporate sector. Growth and development of various mutual fund products in Indian capital market has proved to be one of the most catalytic instruments in generating momentous investment growth in the capital market. (3) We find little herding by mutual funds in the average stock, but much higher levels in trades of small stocks and in trading by growth-oriented funds. (4) The launching of new products by several AMCs signals to the rapid growing equity culture in the country with mutual funds as the long term investment vehicles. Investment in it encourages a regular investment habit for the investors, thus boosting the markets. (5) The results provide the evidence that aggregate security returns are highly correlated with concurrent unexpected cash flows into mutual funds but unrelated to concurrent expected flows. His result supports the popular belief that fund inflows and returns are positively related. (Warther, 1995)

This author used Granger causality tests to investigate the lead-lag relationship between returns and fund flows for several categories of equity funds. The result provides the evidence that stock returns can be used to predict the flows into aggressive growth funds, but the same does not apply in the case of income funds. (Potter, 1996) During normal times, increases in mutual fund flows enhance stock market liquidity and trading volume, but during financial crises, U.S. government bond funds see higher inflows, resulting in increased bond market liquidity. Overall, this study deepens our understanding of the dynamics of liquidity in financial markets and suggests how asset allocation strategies might be designed to reduce trading costs. (7)

4. ROLE OF MUTUAL FUNDS IN INDIAN FINANCIAL MARKETS

The Mutual Fund history provide ample evidence that Indian financial institutions have played a dominant role in asset formation and intermediation, and contributed substantially to the process of macro-economic development. Mutual funds, which have emerged as strong financial intermediaries, are playing an important role in this process. They are not only providing stability to the financial system, but have also helped rationalize the process of resource allocation. They have opened new vistas for investors and increase the level of liquidity in the system. In the process, they have challenged the hitherto dominant role of the commercial banks. We now examine the multi-dimensional role of mutual funds in the country's financial sectors in relation to Equity market with an established mutual funds culture is given below.

5. MOVEMENT OF MUTUAL FUND INVESTMENTS IN INDIA

The first mutual fund to be introduced in India was way back in 1963 when the Government of India launched Unit Trust of India (UTI). UTI enjoyed a monopoly in the Indian mutual fund market till 1987 when a host of other government controlled Indian financial companies came up with their own funds. These included State Bank of India, Canara Bank, Punjab National Bank etc. This market was made open to private players in 1993 after the historic constitutional amendments brought forward by the then Congress led government under the existing regime of Liberalization, Privatization and Globalization (LPG).

6. STATEMENT OF PROBLEMS

In this research an effort has been made to develop an understanding of the influence of the mutual fund investment in the Indian equity market. The mutual fund investments have emerged as important players in the Indian equity market in the recent past. This research makes an attempt to understand whether a relationship exists between Mutual Fund investment and Equity Market returns in India.

7. NEED FOR THE STUDY

For measuring the economic growth of the country the capital market also is to be considered. Stock market receives huge investments from the institutional investments. A mutual fund investment by a company is an institutional investment so it becomes important to study about mutual fund.

8. OBJECTIVES OF THE STUDY

- ✓ To study the impact of Mutual Fund investment in the Indian financial market.
- ✓ To analyze the relationship between Mutual Fund flow and market Sensex.
- ✓ To discover the level of influence of Mutual Fund on financial market.
- ✓ To study the profile of the Mutual Fund Investors.

9. METHODOLOGY

This study will be based on

- i) Primary data and,
- ii) Secondary data

The respondents for this study will be mutual fund investors in Madras Stock Exchange. The primary data will be collected using questionnaire. The secondary data will be collected from the records of stock exchanges and published sources

10. EXPECTED CONTRIBUTIONS FROM THE STUDY

Mutual fund investment is the risk less investment in the equity market. If the mutual fund investment is huge in equity market the risk of the fund may be high. So it is important to find whether the investor prefers the mutual funds or the equity market.

11. LIMITATIONS OF THE STUDY

- It's explained mutual impact and movement in stock market based on their attitude.
- It only deals with the present situation of the mutual fund and its role in Indian financial market.

12. EVOLUTION AND SERVICES OF STOCK EXCHANGES IN INDIA

Since 1991, a number of measures have been introduced for improving share trading and delivery mechanisms and investor protection ranging from more episodic disclosures, takeover regulations, insider trading rules, corporate governance code, etc. by the Securities and Exchange Board of India (SEBI), the market regulator. Out of the 23 stock exchanges in India, the most important in terms of Volumes and listed companies are the *NSE* (National Stock Exchange) and the *BSE* (Bombay Stock Exchange).

A. BSE (Bombay Stock Exchange)

BSE's pivotal and pre-eminent role in the development of the Indian capital market is widely recognized. It migrated from the open outcry system to an online screen-based order driven trading system in 1995. BSE was established as "The Native Share & Stock Brokers' Association" in 1875, is the oldest stock exchange in Asia. BSE is now a corporative and demutualised entity having two of world's best exchanges, Deutsche Börse and Singapore Exchange, as its strategic partners. It is the world's number 1 exchange in terms of the number of listed companies and the world's 5th in transaction numbers.

B. Services of BSE:

- (i) **The BSE On-line Trading (BOLT):** BSE On-line Trading (BOLT) facilitates on-line screen based trading in securities.
- (ii) **Surveillance:** BSE's On-Line Surveillance System (BOSS) monitors on a real-time basis the price movements, volume positions and members' positions and real-time measurement of default risk, market reconstruction and generation of cross market alerts.
- (iii) **BSEWEBX.com:** In February 2001, BSE introduced the world's first centralized exchange-based Internet trading system, BSEWEBX.com. to enable investors anywhere in the world to trade on the BSE platform.
- (iv) **'BSE Broadcast'** - a unique ticker-cum-screen which enables information dissemination to the common man on the street.
- (v) **BSE Index-** SENSEX is India's first stock market index that enjoys an iconic stature. Apart from the SENSEX, BSE offers 21 indices, including 12 sectoral indices.

C. NSE (National Stock Exchange)

The need for setting up the National Stock Exchange arose from concerns of investors with the state of existing trading and settlement facilities. NSE was incorporated in 1992. Investors in many areas of the country did not have the same access and opportunity to trade as their counterparts in Mumbai or the main metros. The NSE network has been designed to provide equal access to investors from anywhere in India and to be responsive to their needs. This translates into a single dynamic market across the country with greatly enhanced liquidity, unparalleled transparency and safety. Investors located in remote corners of the country are now able to transact with investors across the country with ease and efficiency.

13. RESEARCH DESIGN

Purposive sampling is used in this study, based on the secondary data drawn from the official websites of securities

Our Objective : Wealth creation and value addition to client's investments.

● **Our Philosophy** : Creation of portfolios optimising by way of - minimum risks and maximum returns.

● **Our Team** : Qualified chartered accountants and mutual fund advisors.

exchange board of India (SEBI), National stock exchange (NSE) and Bombay stock exchange (BSE). The statistical tools like Karl Pearson's Coefficient of Correlation, Regression, Seasonal Variance, Trend Analysis are used for the analysis.

A. Hypothesis Development

Hypothesis 1

H0: There is no significant association between Mutual Fund and Nifty.

H1: There is a significant association between Mutual Fund and Nifty.

Hypothesis 2

H0: There is no relationship between Mutual Fund and Sensex.

H1: There is a relationship between Mutual Fund and Sensex.

14. DATA ANALYSIS AND DISCUSSION

The table shows the volatile nature in the Mutual Funds investment in the equity market. The negative values show the higher sales and high profit trend period. There exist a positive relationship between Mutual Fund flow and Nifty value. But the correlation coefficient is low. Hence, if the Mutual Fund Flow increases, then Nifty value also gets increases. The null hypothesis (H0) is not accepted. It may be inferred that there is an association between Mutual Fund and Nifty. R^2 gives the percentage of variation in Nifty the total variation in Nifty is explained by Mutual Fund amounted to 1.4%. This implies for a unit increase in Mutual Fund flow the Nifty increase up to 1.4%. The effect of Mutual Fund on Sensex is positive but the correlation coefficient is low. Hence, if the Mutual Fund flow increases then Sensex also increases. The above table shows more in Sensex and Nifty have similar influence. The result of yearly correlation shows the volatility of the relationship between mutual fund and BSE-Sensex. The negative correlation shows the higher withdrawal when the market is bullish. This shows the high gap between predicted and actual value of investment. So Mutual Fund investment in the Equity market cannot be predicted exactly. The table represents volatile nature of influence by the Mutual Fund in the Sensex. This means the Mutual Fund inflow does not make the difference but other variables make this difference. The influence in Nifty also volatile but it shows there is at least a minimum influence by Mutual Fund flow in Nifty.

To find the level of influence of Mutual Fund on Equity market

- **Our Style** : Simplicity of personalised professional services as reflected in our strategies of :
 - NO open ended NFOs as our research shows initial 3 to 6 months of investment NFOs languish.
 - NO CHURNING nor profit bookings with every swing of the stock- market.
 - Expertise of FEMA, TAX & MF Planning & portfolio Services from qualified professionals under one umbrella.
 - And ofcourse the real advantage - nrimutualfunds.com is - being Independent Financial Advisors [IFA] senior executives are constantly available to you, not playing musical chairs - an attrition menace of the Industry.

- **Our Services** : As AMFI registered Corporate Mutual Fund Advisors, our services comprise of :
 - Suggesting investment strategy balancing risks and returns suitably for each investor.
 - Provide detailed Asset Allocation Plan [AAP] and opting for purchase averaging.
 - Preparation of all necessary applications and other paper work being dispatched to investor for signatures
 - Maintenance and reporting of portfolio on quarterly basis.
 - Advising profit booking and/or switch from time to time & further reinvestment of sale proceeds on an ongoing basis.
 - Advising tax matters and providing annual statement of Dividend and Gains.

- **Your Security & Convenience** : All investments are made in name of the investor- under his own signature & as MF schemes are electronically linked to investor's notified bank account, error free transfers for investment & realization are ensured.

mobilization charges, investors are not required to pay any advisory or management fees.

The investor has only to sign the dotted line as completed application forms and necessary paper work is prepared and dispatched by our Office.

- **Our Fees** : As Mutual Fund Houses offer

MF Equity Schemes & BSE, NSE, FTSE, Dow 1 / 2 / 3 Years Performance as on 30.04.2011						
Rank	1 year - Gain	Gain %	2 Years - Gain	Gain %	3 Years - Gain	Gain %
	Fund Name		Fund Name		Fund Name	
1	SBI - Magnum Sector Funds Umbrella - FMCG	32.32%	Reliance Pharma Fund - Growth Plan - Growth Option	179.43%	Reliance Pharma Fund - Growth Plan - Growth Option	129.72%
2	ICICI Prudential FMCG Fund - Growth	29.00%	ICICI Prudential Technology Fund - Growth	151.44%	Reliance Banking Fund-growth Plan	86.76%
3	Reliance Banking Fund-growth Plan	23.90%	CanaraRobeco Emerging Equities Auto Repurchase Growth	149.63%	SBI - Magnum Sector Funds Umbrella - FMCG	86.72%
4	ICICI Prudential Technology Fund - Growth	21.06%	ICICI Prudential Discovery Fund- Growth	148.31%	Uti Thematic Auto Sector Fund - Growth	83.14%
5	Uti Growth Sector Fund - Pharma And Healthcare - Growth	18.69%	SBI - Emerging Businesses Fund-Growth	145.35%	UTI-TRANSPORTATION AND LOGISTIC SECTOR - GROWTH PLAN	83.14%

6	Uti-pharma& Healthcare Fund - Growth Plan	18.69%	SBI - Emerging Businesses Fund-Growth	145.35%	Uti Thematic Auto Sector Fund - Growth	83.14%
7	Uti Growth Sector Fund - Pharma And Healthcare - Growth	18.69%	Reliance Banking Fund-growth Plan	144.39%	UTI-TRANSPORTATION AND LOGISTIC SECTOR - GROWTH PLAN	83.14%
8	Uti-pharma& Healthcare Fund - Growth Plan	18.69%	Religare Mid N Small Cap Fund - Growth	144.25%	Uti Growth Sector Fund - Pharma And Healthcare - Growth	71.19%
9	Sundaram Global Advantage Fund - Growth	17.82%	Religare Mid N Small Cap Fund - Growth	144.25%	Uti-pharma& Healthcare Fund - Growth Plan	71.19%
10	Sundaram Global Advantage Fund - Growth	17.82%	Uti Master Value Fund - Growth	143.62%	Uti Growth Sector Fund - Pharma And Healthcare - Growth	71.19%
11	Uti Thematic Banking Sector Fund - Growth	17.76%	Uti-master Value Fund - Growth Plan	143.62%	Uti-pharma& Healthcare Fund - Growth Plan	71.19%
12	Uti-banking Sector Fund - Growth Plan	17.76%	Uti Master Value Fund - Growth	143.62%	ICICI Prudential Discovery Fund- Growth	70.58%
13	Uti Thematic Banking Sector Fund - Growth	17.76%	Uti-master Value Fund - Growth Plan	143.62%	UtiMnc Fund - Growth	65.16%
14	Uti-banking Sector Fund - Growth Plan	17.76%	CanaraRobeco Emerging Equities Growth Fund	142.92%	Uti-mnc Fund - Growth Plan	65.16%
15	UtiMnc Fund - Growth	17.31%	Reliance Equity Opportunities Fund - Growth Plan	139.72%	UtiMnc Fund - Growth	65.16%
16	Uti-mnc Fund - Growth Plan	17.31%	SBI - Magnum Sector Funds Umbrella Pharma - Growth	135.62%	Uti-mnc Fund - Growth Plan	65.16%
17	UtiMnc Fund - Growth	17.31%	SBI - Magnum Sector Funds Umbrella Pharma - Growth	135.62%	Uti Thematic Banking Sector Fund - Growth	63.83%
18	Uti-mnc Fund - Growth Plan	17.31%	Religare Mid Cap Fund - Growth	134.38%	Uti-banking Sector Fund - Growth Plan	63.83%
19	Hsbc - Emerging Market Fund - Growth	17.25%	Religare Mid Cap Fund - Growth	134.38%	Uti Thematic Banking Sector Fund - Growth	63.83%
20	ICICI Prudential Focused Bluechip Equity Fund Retail Growth	17.06%	SBI - Magnum Global Fund - Growth	131.29%	Uti-banking Sector Fund - Growth Plan	63.83%
21	DOW JONES	14.07%	BSE	67.81%	NSE	11.30%
22	BSE	8.98%	NSE	65.50%	BSE	10.69%
23	NSE	8.93%	DOW JONES	56.84%	DOW JONES	3.12%
24	FTSE	8.51%	FTSE	43.03%	FTSE	-0.29%

A. Findings:

- i) There is a low positive relationship between Mutual Fund flow and NSE-Nifty(11.9%).
- ii) The R^2 value indicates that when the Mutual Fund flow increases one unit the Nifty will Change by 1.40%
- iii) The effect of Mutual Fund flow on Sensex is low (12%). There is less significant relationship between the Mutual Fund flow and Sensex.
- iv) The R^2 value indicates that a unit increase in Mutual Fund flow will cause change in Sensex by 1.40%.
- v) Every year the significance of relationship get volatile because of the frequent purchase and sale of stocks by the Mutual Fund companies.
- vi) Whenever the Mutual Fund companies raise the investment, the correlation value becomes positive.
- vii) Likewise when the companies start to withdraw the investment the becomes negative.
- viii) The Mutual Fund investments make influence in the stock market out of their investment ensuring the minimum influence in every year.

15. CONCLUSION

From this study it is found that there is an impact of mutual fund flow in the Indian equity markets NSE and BSE. Because of the amount involved in the equity market the low impact amount to large sum of money. As any investor is interested in his return, the investor may monitor the equity market based on the analysis done and fine tune his investment.

SUGGESTIONS

1. Both NSE and BSE receive significant investment from Mutual Fund flow, so the investors should consider the total investment of the company for the particular period.
2. Based on the seasonal variance the investor should think of making direct investment in the Equity market at the first two quarters.

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