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A STUDY ON MUTUAL FUND WAY TO ENHANCE PORTFOLIO MANAGEMENT

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ABSTRACT

*A **Portfolio** is a collection of investment instruments such as stocks, shares, mutual funds, bonds, deposits, cash, etc. depending on individual investor's income, budget and his / her investment time horizon. **Management** is the organization and coordination of activities of a company in accordance with certain well-defined policies and pre-defined objectives. **Portfolio Management (PM)** helps the investor in choosing the securities that provide a reasonable return for any given degree of risk. It is the art of choosing an appropriate investment policy with minimum risk and maximum return.*

Need for Portfolio Management

Portfolio management provides an ideal investment plan depending on the individual's income, budget, age and ability to take risks. It reduces the risk element and increases the return margin. Portfolio manager is an individual who understands the client's financial needs and suggests a suitable investment plan in line with his income and risk profile i.e., customized investment plan.

Types and Objectives of Portfolio Management

Portfolio Management is of four types and they are: Active portfolio management, Passive portfolio management, Discretionary portfolio management and Non-discretionary portfolio management. The means to effective portfolio management is to be disciplined in investing. The objectives of portfolio management are applicable to all financial portfolios and results in a proper analytical approach towards the growth of the portfolio. The overall risk needs to be maintained at an acceptable level by maintaining a balanced portfolio. Finally, a good portfolio of growth stocks often satisfies all objectives of portfolio management.

The reasons to manage portfolio wisely are: (i) safety of principal, (ii) consistent and regular returns, (iii) capital appreciation, (iv) easy marketability and tradability, (v) liquidity, (vi) diversified portfolio and (vii) positive tax status.

Objectives of the Study

The objectives of the study are to:

- *Conduct an in-depth analysis of mutual fund portfolio by studying the types of mutual funds and its overall performance.*

- *Understand the basic concept of portfolio management and the importance of mutual funds as an investment option.*
- *Create and review portfolio on a regular basis in consideration with the individual's goals and changing conditions.*
- *Highlight the problems encountered in choosing the right type and scheme of mutual fund and understand the role of portfolio management services.*

Research Methodology

Mutual funds are playing an important role in the development of the financial system. They add value to the investment and contribute significantly in widening and deepening the various segments of the money market. Nowadays, more investors have realized the importance of the power of compounding and its part in wealth accumulation. This study is based on both primary data and secondary data. Personal interviews of 75 men and women investors and portfolio managers were conducted to know about their socioeconomic profile as well as the role of mutual funds in one's portfolio. The secondary data include books, journals, magazines and websites. This is purely a descriptive study with simple models and statistical tools.

Conclusion

The findings reveal that mutual funds play an important role in the portfolio of investors and they have different options to choose from an ocean of schemes. There is a need for mutual funds to promote retail holdings so as to tap retail investors having a long-time horizon. The performance of mutual fund industry is in an uptrend to achieve growth in the future.

In the coming years, the mutual fund industry is sure for a boom which would be influenced by the present conditions and demographic profile of the investors. The industry has a bright future and a number of investors may enter the industry. Hence, the government and market regulators should give importance to this flourishing industry and pave way for its development. It is sure that the mutual fund industry with the assistance of portfolio managers and financial advisors become an integral part of the mechanism of transforming small and retail savings of households into the huge inflow of investment for the economy.

KEYWORDS: *Investment Plan, Portfolio Management, Financial Future, and Discipline*

INTRODUCTION

A Study on Mutual Fund Way to Enhance Portfolio Management

A ***Portfolio*** is a collection of investment instruments such as stocks, shares, mutual funds, bonds, deposits, cash, etc. depending on individual investor's income, budget and his / her investment time horizon. If a person has invested in more than one security, it means he has an investment portfolio. The aim is to increase the value of portfolio by choosing proper financial instruments. A diversified portfolio includes various types of securities that reduce the risk element. ***Management*** is the organization and coordination of activities of a company in accordance with certain well-defined policies and pre-defined objectives.

Portfolio Management (PM) helps the investor in choosing the securities that provides a reasonable return for any given degree of risk. It is a tactical decision involving the executives at top level. It is the art of choosing the right investment policy with minimum risk and maximum return. It is goal-driven and target-oriented, which involves inherent risks in managing it. Building a portfolio requires wise decisions in buying or selling of stocks, bonds, or other financial instruments, the quantity and the market timing.

Portfolio Manager is a financial expert who understands the client's financial requirements and formulates a suitable investment plan considering the client's income and risk profile. He invests on behalf of the client.

Evolution of Mutual Funds in India

The Indian Capital Market passed through the most radical phase with unprecedented development during 1980s and 1990s. One of them was increased in the importance of mutual fund industry. It pooled the funds for investment to bridge the gap between supply and demand for funds in the financial market. The need was felt in 1931 and in 1964 Unit Trust of India's UTI Scheme 64 was launched. This attracted banks and other financial institutions to this industry. It became the alternative investment vehicle as public-sector banks and insurance companies were allowed to set up mutual funds. The SEBI formulated a comprehensive regulatory framework.

The ***second phase*** was between 1987 and 1993 during which funds were established by banks and LIC / GIC. SBI was the first non UTI mutual fund, followed by Canbank mutual fund. The ***third phase*** (1993-1996) witnessed the entry of private and foreign sector mutual funds. Association of Mutual Funds of India (AMFI) was incorporated in 1995 to facilitate the growth of mutual funds. Net Asset Value (NAV) calculation, accounting practices, remuneration to Asset Management Company (AMC), etc. were taken into consideration. The ***fourth phase*** was started in 2003, by bifurcating UTI into two separate entities; one regulated by the government of India and the other by SEBI. The ***fifth phase*** (2004 onwards) saw mergers for consolidation and growth.

Need for Portfolio Management

- Portfolio management provides a suitable investment plan considering individual's income, budget, age and risk profile.
- The portfolio manager suggests a suitable investment plan, i.e., customized investment solutions.
- Portfolio management reduces the risks in investing and paves way for enhanced profits i.e., higher returns.

The objectives of portfolio management are applicable to all financial portfolios. The objectives, if considered, results in a proper analytical approach towards the growth of the portfolio. Furthermore, overall risk needs to be maintained at the acceptable level by developing a balanced portfolio. Finally, a good portfolio of growth stocks often satisfies all objectives of portfolio management.

Types of Portfolio Management

Portfolio Management is of four types. They are: Active portfolio management, Passive portfolio management, Discretionary portfolio management and Non-discretionary portfolio management services.

- ***Active Portfolio Management***: In this type, the portfolio managers actively involve in buying and selling of securities in order to maximize profits for the individuals.
- ***Passive Portfolio Management*****:** Here the portfolio managers deal with a fixed portfolio, which is designed in line with the current market conditions.
- ***Discretionary Portfolio Management Services***: In discretionary management services, the individual gives money and authorizes the portfolio manager to take care of all investments and related documentation. He has a complete right to take decisions on behalf of the individuals.
- ***Non-Discretionary Portfolio Management Services***: The portfolio manager advises the individual on the available options. The final decision is in the hands of the individual as he reserves the right to take his decisions.

Reasons for Effective Portfolio Management

The reasons to manage portfolio wisely and effectively are:

- ***Safety of Principal***: One of the most important objectives of portfolio management. The principal amount invested is to be safe and contribute to an increase in purchasing power.
- ***Consistent and Regular Returns***: There should be consistency in returns by reinvesting the returns wisely. Portfolio management helps to yield steady and regular returns.
- ***Capital Appreciation***: With the help of portfolio management one can achieve capital appreciation after adjusting for tax and inflation.
- ***Easy Marketability and Tradability***: Portfolio management ensures flexibility by investing in shares and securities which are listed and traded in stock exchanges.
- ***Liquidity***: The portfolio consists of investments which considers investor's liquidity requirements. It makes use of the opportunities available in the market.
- ***Diversified Portfolio***: Investments are made across different type of securities in order to reduce the risk of capital and / or income loss.
- ***Positive Tax Status***: A planned portfolio management results in increased effective yield by minimizing the tax burden i.e., income tax, capital gains tax, and other taxes.

Strategies for Managing a Portfolio

The portfolio manager should create a portfolio understanding the investor's needs and objectives. It has to be managed effectively by making use of one of the following strategies:

- ***Wing-it Strategy***: It is the most common strategy where there is no plan or structure in the portfolio. One keeps on changing and there is little or no consistency.
- ***Market-Timing Strategy***: In this strategy the investor goes in and out of sectors, assets or markets at the right time. The ability to time the market is to buy at low and sell when high.

- ***Buy-and-Hold Strategy***: This investment strategy is preached as the statistical probabilities are on investor's side. It is easy to employ and there is no adverse effect if one buys and holds.
- ***Performance-Weighting Strategy***: It is midway between market timing and buy and hold strategy. One has to revisit portfolio mix from time to time and monitor his portfolio to accommodate changes.

Rebalancing Portfolio

Rebalancing portfolio between equity and debt is important to sustain in this volatile market conditions. The 3 common approaches are:

- ***Fixed Ratio Approach***: In this approach a fixed ratio between equity and debt is maintained depending on one's age and risk profile.
- ***Variable Ratio Approach***: In case of change in value of stock portfolio, the debt equity ratio changes and accordingly one is sold to rebalance the portfolio.
- ***Constant Rupee Value Approach***: The value of stock portfolio is kept constant in this approach by investing any appreciation in debt or equity.

Objectives of the Study

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- Understand the basic concept of portfolio management and the importance of mutual funds as an investment option.
- Create and review portfolio on a regular basis in consideration with individual's goals and changing conditions.
- Highlight the problems encountered in choosing the right type and scheme of mutual fund and understand the role of portfolio management services.

Research Methodology

Mutual funds are playing an important role in the development of the financial system. They add value to the investment and contribute significantly in widening and deepening the various segments of the money market. Nowadays, more investors have realized the importance of the power of compounding and its part in wealth accumulation. This study is based on both primary data and secondary data. Personal interviews of 75 men and women investors and portfolio managers were conducted to know about their socioeconomic profile as well as the role of mutual funds in one's portfolio. The secondary data include books, journals, magazines and websites. This is purely a descriptive study with simple models and statistical tools.

Target Population

The target population in a research study is made up of all potential participants that form the group to be studied. In this study the target population is the men and women investors and portfolio managers. A total of 75 out of 80 investors

and portfolio managers included in the sample responded to the questionnaire. This represents a response rate of 93.75%. 5 out of the 80, were not included in the analysis as 3 were incomplete and 2 respondents did not return the form.

Sampling

Sampling is the process of selecting a fractional part of the whole relevant group or population. Sampling is of two broad types - probability and non-probability methods. With probability sampling, the likelihood of any one member or element of the population being selected is known. If there are a hundred guest houses and twenty hotels, the odds of selecting one hotel as part of the sample is 20:100 or 1/5. In non-probability sampling, the exact numbers in the population are unknown with the result that the likelihood of selecting any one member of the population is also not known.

- The advantage of the probability sampling is, given that the sampling frame is complete and the samples are adequate, it is unbiased and representative of the population.
- For non-probability sampling, it is not possible to assess whether the sample is representative of the specific population or not.

Limitations of the Study

This study assumed a favorable environment for the investors investing in financial instruments and managing portfolio effectively. The researcher felt that it might be difficult to get sufficient and reliable documents and details about the investors and portfolio managers on their investment pattern. However, the investment portfolio can be managed with the assistance of portfolio managers who render expert and reliable information. The time limit was also a constraint for better and detailed study. Future studies may use this indicator as a mediating / moderating variable to see whether the results shall be different from the current study.

Pilot Study

A pilot study was done on 10% of the sample size. This size is considered adequate to collect relevant information on the validity and reliability of the questionnaire. No adjustments were considered necessary on the original questionnaire as the respondents were able to answer the questions without much difficulty.

Data Analysis

Data analysis is done on the collected data to give some meaning to the gathered raw data. The data is analyzed using simple statistical tools and questionnaires were distributed to the respondents. The duly filled in form was later received back from them. These were consequently edited, coded and then entered on to the computer. As data is entered it is checked for inconsistencies and errors to produce better results.

Mutual Fund Way to Investment Portfolio and its Importance

The researcher formulated a hypothesis that the relationship between mutual fund way to investment portfolio and its importance in achieving the financial goals is essential for financial stability of the individual and the economic growth of the country. It is vital to invest wisely and manage portfolio effectively.

From the computations it was found that the null hypothesis is accepted and concluded that there is a positive relationship between mutual fund way to investment portfolio and its importance to achieve financial goals.

The Respondent's age Group and Experience in Investing

Table 1

Years	No. of Respondents	Percentage
Less than 25	12	16
25 – 35	29	39
35 – 45	25	33
Greater than 45	9	12
Total	**75**	**100**

The above table shows that around 39% (29 respondents) are between 25-35 years and they have been investing for the past few years. The middle aged persons in the age group of 35-45 years represent 33% (25 respondents). Followed by 12 respondents in the age group of less than 25 years and 9 respondents in the age group of above 45 years.

The Respondent's Hardship in Managing their Investment Portfolio

Table 2

Response	No. of Respondents	Percentage
Yes	24	32
No	51	68
Total	**75**	**100**

About 68% of the respondents have specified that they do not encounter hardship in investing their hard earned money in an efficient way and 32% (24 respondents) of the respondents find it difficult in taking correct investment decisions. Today almost everyone is educated and skilled enough to manage finances on their own.

The Respondent's Personal Constraints in Choosing the Right Investment Option

Table 3

Constraints	No. of Respondents	Percentage
Ignorance	14	19
Concern for safety	23	31
Peer pressure	18	24
Conservative	15	20
Others	5	6
Total	**75**	**100**

From the above table, it is clear that 31% of the respondents accept that they are concerned about the safety of principal. Basic knowledge about the available investment options is required to make wise investment decisions and 24% respondents (18 respondents) are influenced by peer pressure in their decisions. 20% respondents are conservative in choosing financial instruments and 19% respondents accept their ignorance.

Respondents Order of Preference to Invest in Mutual Funds

Table 4

Response	No. of Respondents	Percentage
Low risk	8	11
Professional management	11	15
Disciplined saving	10	13
Long-term investment	12	16

Table 4 Contd.,		
Liquidity	19	25
No need for market timing	8	11
Tax-free returns	7	9
Total	**75**	**100**

It is revealed from the above table that 25% respondents consider liquidity as the foremost factor for investing in mutual funds. 16% respondents consider long-term investment and 15% respondents prefer mutual funds for it is professionally managed by financial experts. `13% respondents ranked disciplined saving as the next factor. Equal weightage is given to low risk and market timing (8 respondents each). Tax-free return is a factor of importance from the view point of 9% respondents.

Respondent's Current Lifestyle and Investment Habits

Table 5

Response	No. of Respondents	Percentage
Good	24	32
Average	36	48
Poor	15	20
Total	**75**	**100**

48% of the respondents evaluate their current lifestyle and investment habits are average in line with standard life conditions. 32% respondents (24 respondents) feel its good and 20% respondents consider it is poor.

Need for Regular Monitoring of Portfolio

Table 6

Response	No. of Respondents	Percentage
Appropriate asset allocation	17	23
Investments performance	12	16
Achieving expected returns	21	28
Measure overall portfolio performance	10	13
Rebalance asset classes	15	20
Total	**75**	**100**

The above table reveals that 28% (21 respondents) respondents are concerned about achieving the expected returns from their investment. Initial asset allocation and rebalancing it are considered essential by 23% and 20% respondents respectively. 16% respondents value the investments performance as a need for regular monitoring of portfolio and 13% respondents to measure the overall performance of the portfolio.

Findings and Suggestions

This study focused on the importance of mutual funds in creating and managing portfolio. The practical difficulties in investing in various investment options are studied to enhance effective portfolio management. Latest technology has paved way for easy and convenient investment.

This study shows the existence of several internal and external constraints in making wise investment decisions.

- In few cases the volatile market conditions make investors take cautious risks and curtail their investments to less risky options.

- Active management of funds are better than passive management as regular checking can take into account the effect of market fluctuations on investment portfolio and enable to take appropriate actions.
- Portfolio diversification is required to manage risks and thereby maximize the returns. One can create a portfolio based on his / her income and risk profile. The objective of financial goals is also taken into consideration while managing portfolio.
- Portfolio managers should analyze the portfolio as different funds have different performance level and also different among various schemes of the same company.
- It is found that by investing in mutual funds one can achieve financial goals as he / she develops the habit of disciplined saving by making use of the power of compounding. There is professional management of funds and no need to spend time and energy on investing or timing the market.
- People have learnt that savings is essential for future financial security and have started investing at their early 20s and a maximum of 39% respondents in the age group of 25-35 years are investing to a great extent for their financial future.
- The investors are educated and do not find any hardship in investing on their own. They are able to conduct a research study on the various investment options and decide the right asset class. Compared to other asset classes like real estate, stocks, bonds, gold, etc. mutual funds are less risky and liquid in nature.
- The common constraints in choosing the right investment options are safety, influence of friends and relatives, preference for conservative investment instruments, ignorance about new options, etc. but still they are able to take wise investment decisions on their own.
- The major reason to invest in mutual funds is its liquidity nature. The other reasons are long-term perspective, professional management, and disciplined saving. Low risk and non-requirement of market timing are given equal importance. High net worth individuals go in for mutual funds as the returns are tax-free.
- Nearly 50% of the respondents are of the opinion that their current lifestyle and investment habits are average and that they are able to lead a decent standard of living.
- While creating a portfolio is difficult, regular monitoring and review is even more difficult as it involves a lot of research and rebalance in portfolio to keep pace with the changing internal and external conditions.

CONCLUSIONS

The findings reveal that mutual funds play an important role in the investment portfolio of investors and they have different options to choose from an ocean of schemes. There is a need for mutual funds to promote retail holdings so as to tap retail investors having a long time horizon thereby ensure stability in the market. The performance of the industry has been strong and is in a comfortable position to achieve sustainable growth levels in the future.

The various phases of portfolio management include security analysis, portfolio analysis, portfolio selection, portfolio revision and portfolio evaluation. Portfolio management services in mutual funds are helpful as they reduce risk without compromising on returns. It involves proper money management with regard to what to buy or sell at a particular

point of time. Mutual funds are considered good as professionals manage the funds wisely and there is no need for investment knowledge or timing the market. However, creating and building a good mutual fund portfolio requires adequate amount of planning. Handling market volatility and achieving financial goals is possible by having a mutual fund portfolio divided into two parts: i) core is for stability and predictability, ii) satellite is for investments having high potential but is risky. A proper combination can reduce transaction costs and tax liability and manage volatility in the run for opportunities to outperform the market. Few mutual funds took the lead sometime back and switched from a price index to a total return index. A total return index considers dividends, interest and other payouts of a security. The outperformance over a simple price index may not be that difficult, when compared to a total return index.

In the coming years, the mutual fund industry is sure for a boom which would be influenced by the present conditions and demographic profile of the investors. The industry has a bright future and a number of investors may enter the industry. Hence, the government and market regulators should give importance to this flourishing industry and pave way for its development. It is sure that the mutual fund industry with the assistance of portfolio managers and financial advisors become an integral part of the mechanism of transforming small and retail savings of households into the huge inflow of investment for the economy. The new generation is not so focussed on gold ornaments and would rather prefer stuff that has no value for thieves. The money must go into financial assets such as mutual funds which has to be left for kids, not property or gold.

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