INSIGHTS OF MUTUAL FUNDS FOR RETAIL INVESTORS

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Abstract

This paper is an attempt to study overview of the mutual fund industry in India and the retail participation to understand the penetration and expected growth over a period of time. Mutual Funds are known to all types of investors but the majority participation is concentrated to FII's and DII's; keeping the retail investors contribution to minimal. Few welcome changes in Mutual Funds internal and external environment will definitely lead to maximum retail participation. With close to a total of 44 fund houses in the country, the top five companies account for close to 80 per cent of the sector's assets under management. According to estimates the asset base of the mutual fund industry in the country is expected to grow faster at 18.6 percent per annum to cross Rs 20 trillion(US$ 325 billion) by 2018 with an investor base of 10 crore accounts. This paper try to have insight the future of Retail Segment with their current status, difficulties, challenges and examines the opportunities for retail investors. With the total investor base still at a low level of 2 per cent out of the total domestic population, there are ample growth opportunities available in the domestic mutual fund industry.

Key words: Mutual Funds, Retail Investors, Challenges, opportunities.

Introduction

Mutual Fund is no more new concept as far as investment products are concerned.Given the dearth of longer-term investment options in emerging markets such as India, one would expect mutual funds to become popular. The "Retail" is one of the segment as an investor which has contributed to minimal extend till now butWith the continued buoyancy in the markets and the improved sentiment, the retail participation through equity mutual funds has seen a huge fillip. This went up by 58% from Rs 1.17 lakh crore in April 2014 to Rs 1.85 lakh crore in April 2015. Though the penetration of mutual funds for retail investors is limited at the current state but it has the accelerated future growth. The retail investors are defined as-

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“An individual investor who buys and sells securities for his or her own account. Some brokerage firms specialize in serving retail investors while other brokerage firms strive to attract business from institutions that engage in large trades.”**---“Financial-dictionary”**

“Individual investors who buy and sell securities for their personal account and not for another company or organization, also known as an "individual investor" or "small investor".” ---- “**Investopedia”**

The change in investing pattern of the retail investors have been noticed by the regulators and investment advisors as well. Earlier investors used to track short-term performance, what is happening in six months, last one year but then they started appreciating how the wealth gets created over a longer period of time. Investors who have invested for more than 10 or 15 years and they have gone through different market cycles and that is what is also differentiating different fund managers in the industry.

Benefits of investing in mutual funds:

The retail segment at a market place is getting benefitted out of Mutual Fund investments and expected benefits are perceived as -

PROFESSIONAL MANAGEMENT

When investor invests in a mutual fund, the money is managed by finance professionals called as Fund Managers. Investors who do not have the time or skill to manage their own portfolio can invest in mutual funds. By investing in mutual funds, investor can gain the services of professional fund managers, which would otherwise be costly for an individual investor.

DIVERSIFICATION

Mutual funds provide the benefit of diversification across different sectors and companies. Mutual funds widen investments across various industries and asset classes. Thus, by investing in a mutual fund, investor can gain from the benefits of diversification and asset allocation, without investing a large amount of money that would be required to build an individual portfolio.

LIQUIDITY

Mutual funds are usually very liquid investments. Unless they have a pre-specified lock-in period, your money is available to you anytime you want subject to exit load, if any. Normally funds take a couple of days for returning your money to you. Since they are well integrated with the banking system, most funds can transfer the money directly to your bank account.

FLEXIBILITY

Investors can benefit from the convenience and flexibility offered by mutual funds to invest in a wide range of schemes. The option of systematic (at regular intervals) investment and withdrawal is also offered to investors in most open-ended schemes. Depending on one's inclinations and convenience one can invest or withdraw funds.

LOW TRANSACTION COST

Due to economies of scale, mutual funds pay lower transaction costs. The benefits are passed on to mutual fund investors, which may not be enjoyed by an individual who enters the market directly.

TRANSPARENCY

Funds provide investors with updated information pertaining to the markets and schemes through factsheets, offer documents, annual reports etc.

WELL REGULATED

Mutual funds in India are regulated and monitored by the Securities and Exchange Board of India (SEBI), which endeavors to protect the interests of investors. All funds are registered with SEBI and complete transparency is enforced. Mutual funds are required to provide investors with standard information about their investments, in addition to other disclosures like specific investments made by the scheme and the quantity of investment in each asset class.

Risks involved

Mutual funds invest in different securities like stocks or fixed income securities, depending upon the fund's objectives. As a result, different schemes have different risks depending on the underlying portfolio. The value of an investment may decline over a period of time because of economic alterations or other events that affect the overall market. Also, the government may come up with new regulations, which may affect a particular industry or class of industries. All these factors influence the performance of Mutual Funds.

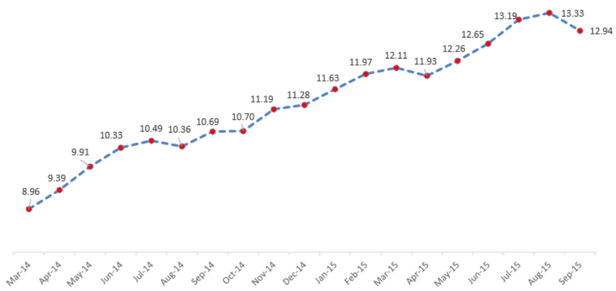
Risk and Reward

The diversification that mutual funds provide can help ease risk by offsetting losses from some securities with gains in other securities. On the other hand, this could limit the upside potential that is provided by holding a single security.

Lack of Control

Investors cannot determine the exact composition of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys.

Mutual Fund Industry Current Status:
Total Assets in MF Industry



Assets are measured as average assets for the month. Rs. Trillion is equivalent to Rs. Lakh Cr.
Source: - AMFI INDIA

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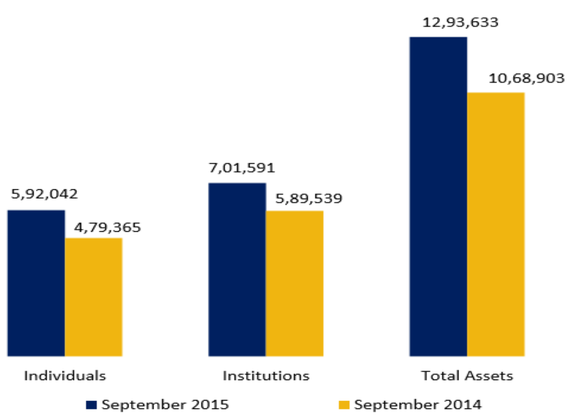
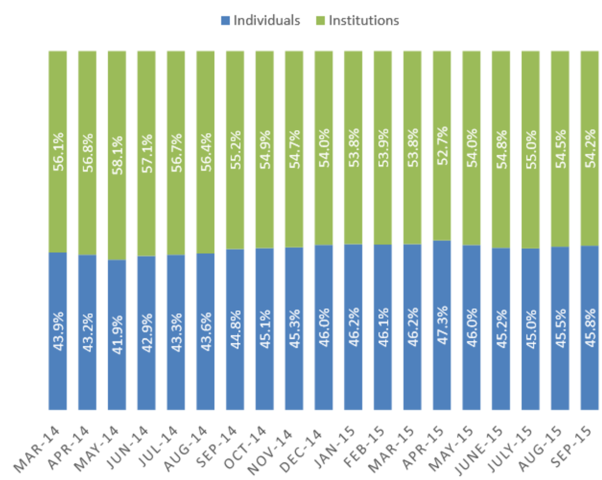
An asset managed by the Indian mutual fund industry has grown from Rs. 10.69 trillion in September 2014 to Rs. 12.94 trillion in September 2015. That represents a 21% growth in assets over September 2014. However there has been a drop of 3% in the total assets over last month.

Investors type-wise Composition of Mutual Fund Assets





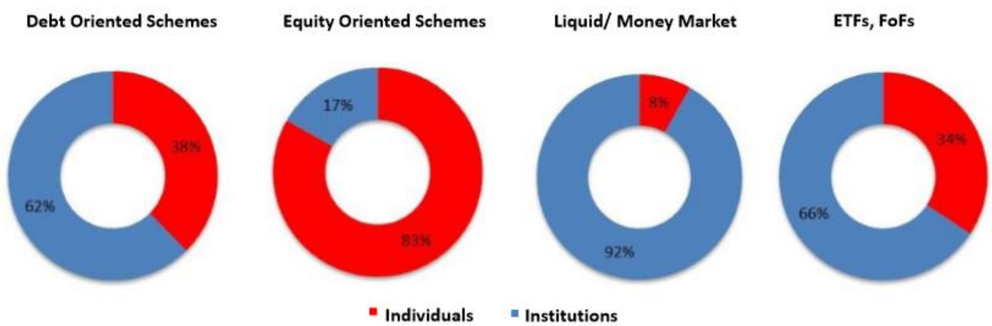
Individual investors now hold a higher share of the industry's assets, up from 44.8% in September 2014 to 45.8% in September 2015.Institutional investors account for 54.2% of the assets, of which corporate are 85.3%. The rest are Indian and foreign institutions and banks.

Assets of Individual Investors

The value of assets held by individual investors in mutual funds increased from Rs. 4.80 lakh cr in September 2014 to Rs. 5.92 lakh cr in September 2015, an absolute increase of 23.51%

This was higher than the 21% overall growth in assets for the mutual fund industry.
This was also higher than the growth in Institutional assets from Rs. 5.90 lakh cr to Rs. 7.02 lakh cr, an absolute growth of 19.01%

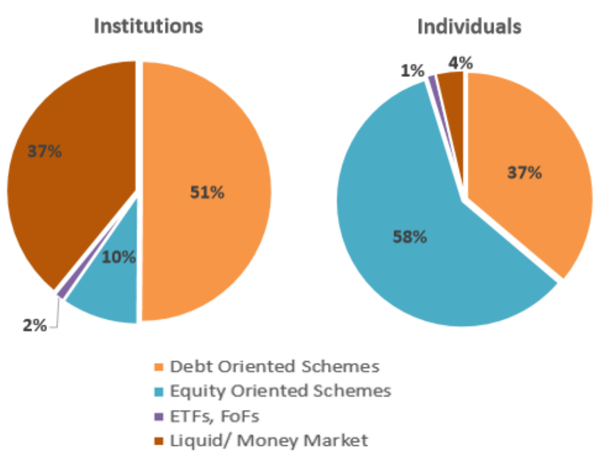
Investor Categories Across Scheme Types



Source: AMFI INDIA
Equity-oriented schemes derive 83% of their assets from individual investors (Retail + HNI), Institutional investors dominate liquid and money market schemes (92%), debt oriented schemes (62%) and ETF's, FOFs (66%).

Composition of Individual Investors

Individual investors primarily hold equity-oriented schemes while institutions hold liquid and debt-oriented schemes.
58% of individual investor assets are held in equity oriented schemes.
88% of institutions assets are held in liquid / money market schemes and debt-oriented schemes.



Institutions include domestic and foreign institutions and banks. Individuals include HNIs or investors who invest with a ticket size of Rs. 5 lakhs or above. Equity-oriented schemes include equity and balance funds.

Source: AMFI INDIA

EMERGING CHALLENGES FOR INDUSTRY &INDIVUDUALS

Pressures on Margins

To effectively tide over the challenges, fund houses will have to expand their cost budgets whichmay put pressure on margins in the short run. Reduced margins may have the effect of fundshouses flexing their muscles to garner a higher market share of assets under management toenjoy the benefits of economies of scale. This will surely benefit the investors in the long run asthey would be able to enjoy better service standards and more product differentiation. Increasingregulations may also bring about an increase in the cost of compliance.

Consolidation in the Industry

Increasing challenges and growing competition may make it difficult for the smaller players tosurvive. With more and more new players keen on entering the market, a new wave ofconsolidation may spark of by way of mergers and acquisitions in the industry.

Innovation and Product Differentiation

Global fund houses are set to make their presence felt in India in a big way. Some of these fundhouses are known globally for their specialization in structured products and offering an array ofdifferent choices to the investors. With competition going up in India and most fund housesoffering the same bouquet of products to the investors, product differentiation could take centre stage going forward. Innovative distribution models and service standards would also be a key distinguishing factor amongst players.

Increasing Trend on Outsourcing

With the industry facing a shortage of talented resources, there is an increasing trend amongst players to outsource the non-core functions and utilize the limited available resources only for core functions to be performed in house. This is a norm in mature markets for global fund houses which may set a similar trend in our industry as well. Sensing this, more players have entered the fund accounting service provider market in the last one year.

CHALLENGES FACED BY RETAIL MUTUAL FUND INVESTORS

FEAR OF MISLEADING INVESTMENT IN PAST

The biggest challenge in the investors is fear of investment. The investors make decision of investment from his past decision. Often it’s found that wrong guidance provided by commission agent/ advisor impacted negatively on their investment.

UNTOUCHED RURAL MARKET

The potential in rural market is huge as its untouched since many decade. India's 70% of population is from rural areas.

LACK OF AWARENESS ESPECIALLY RURAL

There is huge potation in rural population to park their money in mutual fund schemes but there is lack of awareness about mutual fund investment amongst retail investors especially in rural areas. As there is lack infrastructural development which leads to lack of interest of brokers to setup there business in rural areas.

EARLY AGE INVESTMENT FEAR

Today youngsters also earning good amount of money. They are highly motivated for savings in RD,FD but they don't want to invest in Mutual funds.

INCLINATION TOWARDS TRADITIONAL INVESTMENT OPTIONS

Today also many investors prefer traditional investment options like gold, Silver, Fixed Deposit and recurring deposit. They don't want to take risk which results into fewer returns on their investments.

NON BELIEF OF PAPER ASSETS

There is segment of retail investors they won't believe on paper assets. They prefer to invest only in physical and liquid assets. This results into less participation in mutual fund schemes.

CASH RICH BUSINESS

There are many investors who are directly or indirectly involved in a business where means of tractions is cash basis. As in mutual fund schemes this option in not available they feels de-motivated for investment.

Corrective Measures

TRAINING AND QUALIFIED ADVISORS

One of the important corrective measures is to provide training to the advisors so that they will able to guide and advise the investors. The proportionate and qualified advisors are very minimal in the industry. So it's very important to give a though to the quality of advisor at financial institutions.

CHANNELIZING RURAL TALENT

Rural participation in mutual funds continues to be poor. Such poor penetration has much to do with lack of investor awareness, inefficiencies in fund transfer mechanisms, presence of safer substitutes and cost of establishing presence in smaller areas. Fund houses cannot fight this battle single handedly. They need adequate support in terms of banking infra structure, distribution services and technological solutions to ensure a sustainable cost-benefit model of growth.

E-COMMERCE

Mutual fund industry can touch to untapped market with help of wide government network lie Post Office and LIC. They can utilize the channel of E-commerce.

ACCESSIBILITY TO SERVICE CENTERS

This is one of the important measures to reach to the retail investors as the limited access to service centers is inconvenience for an individual. At lease in rural areas the connectivity of centers need to be made available to get maximum participation.

AWARENESS PROGRAMMES AMONGST YOUNG GENERATION

India is having a great advantage of young population, as we all know young generation is highly motivated for savings and they can take risk as well. There should awareness programme especially for young generation.

Conclusion

India is emerging market and one of the safest place to make investments. Even though the big tickets are the center of attraction for investments; the participation from Retail should not be ignored. The segment is steaming; it just needs a push to be in limelight.

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