SWOT ANALYSIS OF MUTUAL FUND IN INDIA

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ABSTRACT

A mutual fund invests the savings of investors in a diversified securities listed on the capital market at a relatively low cost. Mutual fund operators share the income and the capital appreciation of the various schemes with unit holders. Hence it is most suitable investment for the common man. But, selecting a mutual fund for investment by a common man is a difficult task. SWOT analysis is the only tool to tide over the problem of investors when they select the right type of schemes for investment in mutual fund. It is a basic and straightforward model and also examines strengths, weakness, opportunities and threats in the mutual fund schemes.

(Key words: Diversified securities-Capital Market-SWOT analysis)

INTRODUCTION

A mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. It invests amount collected from the investors in capital market instruments such as shares, debentures and other securities. It shares income earned through the investments and the capital appreciation realized with unit holders. Hence, a mutual fund is the most suitable investment for the common man as it offers an opportunity to invest in diversified securities at a relatively low cost.

The concept of mutual funds in India dates back to the year 1963. The Unit Trust of India (UTI) was the only one mutual fund company in India from 1963 to 1987. By the end of the 80s decade, few mutual fund companies in India took their position in mutual fund market. The succeeding decade showed a new horizon in India mutual fund industry.

The total Asset under Management of the mutual fund industry by the end of 1993 claimed to Rs. 470.4bn.[1] The private sector funds started penetrating to the fund families and made the industry competitive. Just after ten years, with private sector penetration, the total assets rose up to Rs.1218.05bn.[2]

SEBI (Securities and Exchange Board of India), which came into force 30th January 1962, regulates the operation of all the mutual fund firms in India The first mutual fund regulation was introduced in 1993 and the same was revised in 1996.Under the Indian Trust Act, all the mutual funds in the country need to be established as trusts. All the mutual funds can even be penalized for defaults such as non-registration and failure to observe rules set by their Assets Managements Companies. The mutual funds that are dealing exclusively with money market need to be registered with the Reserve Bank of India (RBI)

The mutual fund in industry has also witnessed several mergers and acquisitions recently. In addition, more international mutual fund players have entered India. As at the end of 30, June 2011, there were 41 mutual funds, which manage the assets of Rs. 6, 90,213 cores fewer than 421 schemes.[3] This is a continuing phase of growth of industry through consolidation and entry of new international and private sector players.

[1] www.ehow.com
[2] Wiki.answers.com
[3] www.latestt.com

WHAT IS SWOT ANALYSIS?

Selecting a mutual fund for investment is a difficult task. SWOT analysis is a tool, which helps the investors take investment decision in mutual fund. It is a type of fundamental analysis of health of a company by examining its strengths, weakness, business opportunities and any threats. SWOT is a basic, and straightforward model that assesses what an organisation can and cannot do as well as its potential opportunities and threats. The method of SWOT analysis is to take the information from an environmental analysis and separate it into internal (strengths and weaknesses) and external issues (opportunities and threats). Once this is completed, SWOT analysis determines what may assist the firm in accomplishing its objectives, what obstacles must be overcome or minimized to achieve desired results.[4]

STRENGTHS

Well-qualified and experienced fund managers manage the pool of money collected by a mutual fund. They thoroughly analyze the markets and economy to find out the good investment opportunities. Hence, investors need not worry about their investment in mutual funds. They can buy units from the various schemes of mutual funds by mail or phone or even through Internet**.** Mutual funds help investors reap the benefits of returns by a portfolio spread across a wide spectrum of companies with small investments. Such a spread would not have been possible without their assistance of professional fund management

Furthermore, there are innumerable schemes available in the market so that investors can switch over to another scheme suitable to their investment when the stock market condition is weak. Just like an individual stock, mutual funds help the investors liquidate their position in the market without experiencing any problems

Compared to other financial instruments, mutual funds are less expensive and can be monitored very easily by investors themselves. Mutual fund has often acted as a counterbalance to equity market volatility, and market liquidity. The fund industry has introduced the best products and services and delivered superlative performance .It allows small investors to invest in market cheaply and efficiently

Investors with a limited amount of fund might be able to invest in only one or two stocks/bonds, which will increase their risk. However a mutual fund will spread its risk by investing a number of sound stocks or bonds. A fund normally invests in companies across a wide range of industries, so that the risk is diversified and at the same time taking advantage of the position it holds. Also in cases of liquidity crisis where stocks are sold at a distress, mutual funds have the advantages of the redemption option at the NAV (Net Asset Values)

Mutual funds regularly provide investors with information on the value of their investments. They also provide complete portfolio disclosure of the investments made by various schemes and also the proportion amount invested in each asset type. They lay out the investment strategy clearly to the investors.

Closed ended funds have their units listed at the stock exchange and they can be bought and sold at their market value. Over and above this, the units can be directly redeemed to the mutual funds as and when they announce the repurchase. The large amounts of mutual funds offer the investor a wide variety of choice. An investor can pick up any one of the schemes, depending upon his/her risk return profile.

The idea behind the investment in mutual fund is to invest in a large number of assets so that a loss in any particular investment is minimized by gains in others. Compared to their other type of investment products, procedure for investment in mutual fund is very simple and also investment in mutual fund is minimum. Mutual fund buys and sells a large amount of securities at a time, as a result of which transaction costs are reduced and the average cost of the unit is brought down as well**.**

Mutual fund operates under well-known brand names so that mutual fund operators can make an appeal to many different segments of the market. Since on-line and internet based access offer a combination

[4] www.wikiwealth.com

of excellent growth prospects, mutual fund operators can continuously improve the distribution of their products.

Many mutual funds have a large part of installed capacities, as a result of which the mutual fund can be more flexible and resistant to economic and environmental change. All the mutual funds are registered with SEBI and they function within the provisions of strict regulations, certifications and code of conduct designed to protect the interest of investors from fraud.

WEAKNESS

Some schemes introduced by mutual funds do not receive proper attention of the investors. Performance of some mutual funds is not dynamic enough to explore the available opportunity in the market. Therefore, investors themselves can pick up some schemes available in the market, using their little amount of knowledge in mutual funds.

The biggest income of AMC (Asset Management Company) comes from the exit load. AMC charge unreasonable amount for exit load from investors at the time of sale of mutual fund units. Besides, mutual fund industries are charging extra cost under the different names. Most of the mutual funds have smallholdings across the different companies. Thus, high return from a few investments will not make much different on overall return.

Mutual fund will not give a guaranteed return to investors like many other investment products in the financial market. These are also possibility for depreciation of the value in the mutual fund. Unlike fixed income products such as bonds and treasury bills, mutual fund experience price fluctuation along with the stock. While deciding on a particular fund to investment, the investors should undertake a research to find out the risks involved in mutual funds.

All funds charge administrative fees to cover their day-to-day expenses and sales commission to compensate brokers and financial consultants. If the fund of the investors makes profit on its sales, the investors pay taxes in the income they receive. When the investors invest in mutual funds, they should depend on the fund manager to take the right decision regarding the schemes.

Before investment in any new schemes of mutual fund, investors are cautioned to read the offer document carefully by mutual fund operators. It is one way or another to discourage the prospective investors to enter into mutual fund for the purpose of investment. Mutual funds are like many other investments without a guaranteed return. Hence, there is possibility to get the value of the mutual fund depreciated.

In Indian mutual funds, there are two types of fees namely shareholders fees and annual operating fees. The shareholders fees, which are in the form of exit load and redemption fee, are paid by the shareholders to sell the units of the fund. Mutual fund operators use annual fees for the operation of fund. These two fees are assessed to mutual fund investors regardless of the performance of the fund. When the fund does not performance well, these two fees magnify losses to mutual fund investors

OPPORTUNITIES

In most of the developed countries, total assets under management ranges from 30% to 60% of the GDP.[5] In the case of USA and UK, 50% and 17% of investors hold mutual funds respectively.[6] But, mutual funds accounts only 0.73% in India. Moreover, total assets under management are only 8% of the GDP and 6.7% of the households in India.[7] Hence, mutual funds should introduce new schemes attracting the large number of investors with a view to increasing their share in GDP and also in households

Besides, bank deposits are the biggest competition to MF products. AUM for mutual funds has exceeded the bank deposits in the USA, whereas in India mutual fund growth is at low ebb compared to the

[5] www.docstoc.com
[6] www.oppapers.com
[7] www.webansers.com

development of the bank deposits. Fund operators can take big steps to divert the attention of investors towards mutual funds by introduction of attractive schemes that are likely to yield better and study returns than bank deposits. In India, rural market has great potential for the excellent growth prospects of mutual funds. All the major market leaders consider the rural market in India for their product improvement.

As Multinational Companies are entering into our market with a tie-up of Indian mutual funds; job opportunities are on the rise. Investment in mutual funds will give an opportunity to create infrastructure for industries of our country.

Mutual funds in India are permitted to invest up to 10% of their net assets abroad in foreign securities subject to a maximum of $ 50 million. Only 5% of Indian savings is invested in foreign securities abroad.[8] Therefore, there is a large potential for the fund industry to mobilize the savings of people into investments of mutual funds.

Mutual funds are currently not allowed to invest in real estate. Government should take necessary steps to allow the mutual fund industry to invest in real estate as well. There is a huge untapped market, which can be penetrated through the variety of schemes provided by the funds. Since many product varieties are already introduced by Mutual fund industry, they can increase the customer base by just strengthening the promotional activities or by conducting investor awareness programmers

THREATS

There is intensive competition among mutual fund operators. The entry of Multinational Corporation is also a great threat to the mutual fund operation. Retail investors have lack of awareness over the mutual funds. One of the major factors impeding the growth of mutual fund industry is the absence of regulation in the distribution of mutual funds. Mutual fund investors seek the help of distributors who are ready to inform them of the efficiency of distribution for a particular risk profile and stages in life cycle.

Lack of awareness among distributors and absence of any disclosures from distributors will be difficult to sell the mutual fund products to investors. Mutual fund operators are unable to penetrate in rural areas. Roughly 3% rural people own mutual funds in India.[9] Distribution of mutual fund in some centers of India by fund managers is very expensive.

Large number of investment substitutes namely deposits, equities, \real estate etc available to the Indian investors pose a threat to the growth of mutual fund. Investment products like PPF (Public Provident Fund) is also a threat since it gives guaranteed returns besides, being free from risk. Investment abroad will need to be closely tracked to ensure that the source of funds is legitimate and to protect against Money Laundering, which is onus on banks to ensure the same. Investors in India will have to be educated about risks inherent in investing abroad like foreign exchange risks, tax implications etc.

There is a general notion among the investors that investment in mutual funds will run the risk of losing the hard-earned money. Real estate also poses a big threat for the industry since investors prefer investing in property rather than funds. Portfolio management has now been designed specially for an individual investor by private mutual fund institutions. If the fund manager does not take right decisions regarding fund’s portfolio, an individual investor will definitely burn his fingers.

Lack of trust and knowledge about the concept of mutual fund among the rural and semi-urban investors is curtailing the growth of mutual fund industry The foreign MF industries are also posing threats to the growth of Indian Mutual funds As compared to foreign mutual funds, the Indian mutual funds provide a few schemes only which do not suit the requirements of the investors. Mutual fund operators spend roughly 60% to 70% of the revenue earned through various schemes on the management and services.[10]

[8] www.papercamp.com
[9] www.authosterm.com
[10] www.amniindia.com

CONCLUSION

The information provided by a SWOT analysis can be extremely helpful to an investor to choose a mutual fund for investment. An organization's strength, weaknesses, opportunity and threats are key factors to consider when deciding to invest money with them. A mutual fund's strength and weakness are defined as internal factors on which the organization might rely to add value to their products and services. Opportunities and threats are also external factors, which may detract from the value of an organization's products and services, as result of which there may be poor management, low cash flow and redemption rates or unusually high fees. All of the information mentioned in strength weakness opportunity and threats would be extremely helpful to prospective investors when choosing the right decisions on investment in the mutual funds**.**

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