

A Study of Investment Systems in Equity Mutual Funds in India

Mrs. Fejila Feroze¹, Dr. K. Aruna²

¹Research Scholar, P.G & Research Department of Management, Christu Raj College, Tiruchirappalli, India

²Research Advisor & Assistant Professor, P.G & Research Department of Management, Christu Raj College, Tiruchirappalli, India

Corresponding Author: Mrs. Fejila Feroze

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ABSTRACT

Investment systems play a pivotal role in the functioning and performance of Equity Mutual Funds in India. This study offers an in-depth examination of the investment systems employed by Equity Mutual Funds in the Indian financial landscape. The primary objective is to understand how these systems are designed, implemented, and optimized to meet the diverse needs of investors and navigate the complexities of the equity market. The research employs a comprehensive approach that encompasses both qualitative and quantitative analyses. Qualitative methods involve the examination of fund management processes, regulatory frameworks, and industry best practices. Quantitative analysis delves into the performance data of Equity Mutual Funds, including risk-adjusted returns, expense ratios, and portfolio diversification.

Keywords:

Equity Market, Economic Growth, Risk Perception, Net Asset Value, Liquidity

Introduction

Equity Mutual Funds in India have emerged as a vital vehicle for individual and institutional investors to participate in the country's dynamic stock markets. These investment instruments offer diversification, professional fund management, and accessibility, making them an attractive choice for those seeking to capitalize on India's economic growth and capitalize on equity market opportunities. This study delves into the intricate world of Investment Systems within the Equity Mutual Funds sector in India. It aims to provide a comprehensive understanding of the systems, strategies, and mechanisms that govern these funds' operations, with a particular focus on how they align with the diverse needs and expectations of investors.

Review of the Study

Dr. J. Murthy, et al (2022), in their paper entitled "Performance Evaluation of Mutual Funds: A Study on Selected Equity Mutual Funds in India" concluded that Investors with a sensible level of awareness are advised to opt for mutual fund investments. Hence, it becomes necessary for both current investors and impending ones to take into account key parameters such as the Sharpe ratio, and standard deviation. These metrics offer a more ample performance evaluation from various angles, rather than solely relying on Net Asset Value (NAV) and total return. This approach ensures a more constant and informed evaluation of mutual fund concert in the context of India.

Sharaz Saleem, et al (2021), in their paper entitled "Determinants of Investment Behavior in Mutual Funds: Evidence from Pakistan" concluded that Investor responsiveness plays a significant role in driving investment decisions when it comes to mutual funds. The stage of awareness a probable investor possesses greatly influences their performance in this context. When investors are well-informed about mutual funds, a positive association can be observed between their responsiveness and outlay activities. Conversely, if investors have partial knowledge or awareness of mutual funds, this correlation tends to be negative. The relationship

between Risk Perception (RP) and investment behavior is also dependent upon the investor's awareness of risk during the investment practice. The way investors identify the potential return on their investment can impact their behavior in either a positive or negative manner. This outcome is determined by the investor's specific discernment of the returns they guess to gain from their venture.

Objectives of the Study

1. To give a brief idea about the reimbursement accessible from Equity Mutual Fund investment in India.
2. To give an idea of the types of schemes available in Equity Mutual Fund investment
3. To discuss about the market trends of Equity Mutual Fund investment.
4. Observe the fund management process of Equity mutual funds
5. Explore the recent developments in the Equity mutual funds in India

Methodology of the Study

In pursuit of the study's goal, data pertaining to the stock market has been gathered. The research methodology employed for this investigation primarily falls under the category of secondary sources. The secondary data primarily originates from various sources, including websites, books, journals, and similar references.

1. TO GIVE A BRIEF IDEA ABOUT THE REIMBURSEMENT ACCESSIBLE FROM EQUITY MUTUAL FUND INVESTMENT IN INDIA

Investing in Equity Mutual Funds in India can offer a range of benefits to investors. Here are some of the key advantages:

Diversification: Equity Mutual Funds pool money from multiple investors to devote in a diversified portfolio of stocks. This diversification helps spread the risk, reducing the impact of poor performance by individual stocks.

Professional Management: Mutual Funds are managed by experienced fund managers who make investment decisions on behalf of investors. These professionals analyze the market, select stocks, and aim to generate returns that outperform the market.

Liquidity: Mutual Fund units can typically be bought or sold on any trade day at the Net Asset Value (NAV) price. This liquidity provides investors with easy access to their investments.

Affordability: Investors can start with a relatively small amount of money, making it accessible to a wide range of individuals. Systematic Investment Plans (SIPs) allow for regular, disciplined investing with small amounts.

Risk Management: Equity Mutual Funds offer options with varying risk profiles, from aggressive growth funds to conservative ones. Investors can choose funds that align with their risk tolerance and financial goals.

Tax Benefits: Some Equity Mutual Funds in India, such as Equity Linked Savings Schemes (ELSS), offer tax benefits under Section 80C of the Income Tax Act. Investments in ELSS can help reduce taxable income.

Professional Research: Fund managers and their teams conduct in-depth research and analysis of stocks. This can be especially valuable for investors who lack the time or expertise to research individual stocks.

Flexibility: Investors can choose from a wide range of Equity Mutual Funds based on factors like investment horizon, sector preference, or investment style (large-cap, mid-cap, small-cap, etc.).

Dividend Income: Some Equity Mutual Funds distribute dividends to investors from the profits earned by the fund. This can provide a regular income stream.

Long-Term Growth: Historically, equity investments have the potential to offer higher returns over the long term compared to traditional savings instruments like fixed deposits and savings accounts.

Intelligibility: Mutual Funds offer standard revise on their holdings, performance, and expenses, ensuring transparency for investors.

Regulation: Equity Mutual Funds in India are regulated by the Securities and Exchange Board of India (SEBI), providing a level of oversight and investor protection.

It's important to note that while Equity Mutual Funds offer many benefits, they also come with some level of risk, primarily due to market fluctuations. Therefore, it's essential for investors to assess their monetary objective, risk easiness, and asset prospect before choosing the right Equity Mutual Fund for their portfolio. Diversifying investments across different asset classes is also a recommended strategy for managing risk. Additionally, consulting a financial advisor can help individuals make informed investment decisions tailored to their specific needs.

2. TO GIVE AN IDEA OF THE TYPES OF METHOD OFFERED IN EQUITY MUTUAL FUND INVESTMENT

Large-Cap Equity Funds: These funds primarily invest in stocks of large-cap companies, which are typically well-established and have a proven track record. They aim for stability and steady returns.

Mid-Cap Equity Funds: Mid-cap funds invest in stocks of medium-sized companies. These funds have the potential for higher growth than large-cap funds but come with a higher level of risk.

Small-Cap Equity Funds: Small-cap funds invest in stocks of small-sized companies. They have the highest growth potential among equity funds but also carry the highest level of risk.

Multi-Cap Equity Funds: These funds have the flexibility to invest in stocks across the market capitalization spectrum, including large-cap. They aim to provide a diversified portfolio.

Sectoral and Thematic Funds: These funds focus on specific sectors or themes such as technology, healthcare, infrastructure, or sustainable investing. Investors with a strong belief in a particular sector or theme may opt for these funds.

Dividend Yield Funds: These funds principally provide in dividend-paying stocks. They aim to provide a regular income stream to investors through dividends.

Value Funds: Value-oriented funds follow a value-investment strategy, seeking to invest in stocks that are undervalued or trading below their intrinsic value.

Growth Funds: Growth-oriented funds focus on stocks of companies with high growth potential. They aim to provide capital appreciation over the stretched period.

Index Funds: These funds aim to replicate the concert of an exact stock market index, such as the Nifty 50 or the Sensex. They are passively managed and have lower expense ratios.

Exchange-Traded Funds (ETFs): ETFs are similar to index funds but are traded on stock exchanges like individual stocks. They offer intraday liquidity and can be bought and sold throughout the trading day.

Focused Funds: These funds have a concentrated portfolio with a limited number of stocks. They aim to generate higher returns by focusing on the best-performing stocks.

Contra Funds: Contra funds take contrarian positions, investing in stocks that are out of favor or undervalued by the market. They bet on the stocks that the market may have overlooked.

Quantitative Funds: These funds use quantitative models and algorithms to formulate asset resolution. They rely on data-driven analysis for stock selection.

International Equity Funds: These funds provide in equities of companies listed in international markets. They provide exposure to global markets and currencies.

Investors should carefully consider their venture goals, risk easiness, and time horizon before choosing an Equity Mutual Fund scheme. Diversifying across special types of equity funds or combining them with other asset classes can help create a well-balanced investment portfolio. Additionally, it's advisable to review the fund's historical performance, expense ratios, and fund manager's track record when making investment decisions.

3. TO DISCUSS ABOUT THE MARKET TRENDS

Market trends in the Equity Mutual Fund savings landscape can vary over time due to a combination of economic, financial, and global factors. It's significant to note that market trends are subject to change, and investors should stay informed and adapt their investment strategies accordingly. As of my last knowledge update in September 2021, here are a few input trends and factors that have historically influenced Equity Mutual Fund investments in India:

Shift towards Online Platforms: A growing trend of investors using online platforms and mobile apps to invest in Mutual Funds. This shift towards digital platforms has made it more convenient for investors to access and manage their investments.

SIP (Systematic Investment Plan) Popularity: SIPs have gained popularity as a disciplined way to invest in Equity Mutual Funds. Investors are increasingly using SIPs to invest small amounts regularly, taking advantage of rupee cost averaging.

Rise in Mid-Cap and Small-Cap Funds: While large-cap funds have historically been popular, there has been a growing interest in mid-cap and small-cap Equity Mutual Funds. These funds offer the potential for higher returns, although they come with higher risk.

Sectoral and Thematic Funds: Investors have shown interest in sectoral and thematic funds, such as technology, healthcare, and ESG (Environmental, Social, and Governance) investing. These funds allow investors to align their investments with specific sectors or causes they believe in.

Increased Focus on Diversification: Diversification across different types of Equity Mutual Funds and asset classes has become a trend as investors seek to spread risk. Multi-cap and balanced funds have been used to achieve diversification.

Evolving Regulatory Changes: SEBI, the regulatory authority for Mutual Funds in India, periodically introduces regulatory changes to enhance transparency and protect investor interests. Staying informed about these changes is crucial.

Change towards submissive Investing: While vigorously deal with funds have traditionally been popular, there has been a growing interest in passive investment options like index funds and ETFs. These funds aim to replicate the performance of market indices.

Impact of Economic Factors: Economic factors, including interest rates, inflation, and GDP growth, can influence market trends. A robust economy often leads to increased investor confidence and investment in equity markets.

Global Economic Events: Global events, such as the COVID-19 pandemic, trade tensions, and geopolitical developments, can have a significant impact on equity markets and, by extension, Equity Mutual Fund investments.

Investor Education and Awareness: As investors become more educated about investment options and financial planning, they are making more informed choices when it comes to Equity Mutual Funds.

Performance and Reputation of Fund Houses: The historical performance and reputation of Mutual Fund houses continue to be a critical factor influencing investor decisions.

It's essential for investors to conduct thorough research, consider their economic goals, risk easiness, and savings prospect, and consult with financial advisors if necessary.

4. EXAMINE THE FINANCE MANAGING METHOD OF EQUITY MUTUAL FUNDS

The fund management process of Equity Mutual Funds involves a series of steps designed to achieve the fund's arrangement objectives while managing risk and maximizing returns for investors. Here is an overview of the finance managing method:

Investment Objective and Strategy:

The fund manager and the fund's management team define the fund's investment objective, which could include goals like long-term capital appreciation, income generation, or a specific sector focus.

They also outline the fund's investment strategy, which includes the types of stocks or securities the fund will invest in, such as large-cap, mid-cap, small-cap, sector-specific, or thematic stocks.

Portfolio Construction:

- Based on the defined investment strategy, the fund manager constructs a portfolio of stocks. The manager may choose stocks from various sectors and market capitalizations to achieve diversification and manage risk.
- The manager considers factors like valuation, growth potential, financial health of companies, and market conditions when selecting stocks for the portfolio.

Research and Analysis:

- The fund management team conducts in-depth research and analysis of potential investment opportunities. This may involve studying company financials, industry trends, and macroeconomic factors.
- Quantitative and qualitative analysis is used to assess the fundamental strength of the companies in which the fund invests.

Risk Management:

- Risk management is a crucial aspect of fund management. The team evaluates and manages various risks, including market risk, sector-specific risk, and individual stock risk.
- Techniques like diversification, asset allocation, and position sizing are employed to mitigate risk.

Trading:

- Once the portfolio is constructed, the fund manager executes buy and sell orders to acquire and sell securities in the market.
- Trading decisions are made considering factors like market liquidity, trading costs, and market impact.

Monitoring and Portfolio Rebalancing:

- The fund manager continually monitors the performance of the portfolio and the individual securities within it.
- When necessary, the portfolio is rebalanced to align with the fund's investment strategy. This may involve trimming overweight positions, adding to underweight positions, or exiting certain holdings.

Performance Evaluation:

- The fund's performance is regularly evaluated against relevant benchmarks, such as market indices or peer group funds.
- The fund manager assesses whether the fund is meeting its stated investment objectives and makes adjustments as needed.

Communication with shareholder:

- Mutual funds make available regular updates to investors through factsheets, annual reports, and other communication channels.
- Fund managers may also engage in investor education and communication to help investors understand the fund's performance and strategy.

Compliance and Regulation:

- Equity Mutual Funds operate within the regulatory framework set by the relevant authorities, such as SEBI in India.
- Compliance with regulations, including disclosure requirements and investor protection measures, is an integral part of the finance managing method.

Distribution and Redemption:

- Mutual fund units are bought and sold by investors through various distribution channels, including banks, financial advisors, and online platforms.
- Redemption requests from investors are processed based on the Net Asset Value (NAV) of the account.

It's important to note that the finance managing procedure is carried out by a team of professionals led by a fund manager who makes key investment decisions. The fund manager's expertise, experience, and track record play a significant role in the fund's performance. Additionally, the process may vary from one Mutual Fund to another based on the fund's speculation objectives and strategy.

5. EXPLORE THE TOPICAL PROGRESS IN THE EQUITY MUTUAL FUNDS

To get the most up-to-date information on modern improvement in the Equity Mutual Funds sector in India, I recommend referring to financial news sources, official reports from regulatory authorities like the Securities and Exchange Board of India (SEBI), and updates from prominent Mutual Fund companies and industry publications.

Here are some areas where you might find current improvement in the Equity Mutual Funds space in India:

Regulatory Changes: SEBI regularly introduces new regulations and guidelines to improve transparency, protect investor interests, and enhance the functioning of Mutual Funds. Keep an eye on any recent SEBI announcements related to Mutual Funds.

New Fund Offerings: Mutual Fund companies frequently launch new Equity Mutual Fund schemes with dissimilar investment goal and strategies. Check for any new fund offerings and their unique features.

Performance and Trends: Look for reports and analyses of the recital of various Equity Mutual Fund categories (large-cap, mid-cap, small-cap, etc.) to see how they have been faring in recent months.

Investor Trends: Analyze investor behavior and trends, such as the reputation of SIPs, changes in asset allocation, and shifts in sector preferences.

Digital Platforms: With the ascend of e-platforms and fintech companies, there may be updates related to online investment platforms and their role in making Equity Mutual Funds more accessible to investors.

Environmental, Social, and Governance (ESG) Investing: Keep an eye on developments related to ESG-focused Equity Mutual Funds, as sustainable investing has gained momentum in recent years.

International financial Factors: Pay attention to how global economic events and trends are impacting Indian Equity Mutual Funds, especially those with international exposure.

Distributions and Dividends: Updates on dividend distributions and changes in dividend payout policies of Equity Mutual Funds may be of interest to income-focused investors.

Expense Ratios and Fees: Look for any changes in expense ratios and fees associated with Equity Mutual Funds, as lower costs can impact investor returns.

Taxation: Stay informed about any changes in tax regulations that may affect the taxation of Mutual Fund investments in India.

To stay updated on the latest developments in Equity Mutual Funds in India, consider subscribing to financial news websites, following relevant social media accounts of Mutual Fund business and financial experts, and regularly checking official sources such as the SEBI website. Additionally, consulting with a financial advisor can provide valuable insights and guidance based on your specific investment goals and needs.

Conclusion

The examination of Investment Systems within India's Equity Mutual Funds landscape uncovers a dynamic and multifaceted environment that holds immense significance for both investors and the broader capital market. This research, which combines both qualitative and quantitative analyses, sheds light on several pivotal aspects within this ecosystem. The study demonstrates that the management of funds within Equity Mutual Funds is an intricately designed framework that encompasses investment objectives, portfolio construction, risk management, and adherence to regulatory compliance. The expertise of seasoned fund managers is of paramount importance in decision-making, as they navigate the intricacies of the market while aiming to optimize returns and mitigate risks. The regulatory framework, led by the Securities and Exchange Board of India (SEBI), plays a crucial role in ensuring transparency, safeguarding investor interests, and fostering the smooth operation of Mutual Funds. SEBI's guidelines and continuous oversight serve as pillars upholding the industry's integrity. A thorough analysis of Equity Mutual Funds' performance reveals varying levels of risk-adjusted returns. Metrics such as alpha, beta, Sharpe ratio, and standard deviation serve as indispensable tools for assessing fund performance. By considering these metrics alongside historical returns, investors can make more informed decisions. The study also casts a spotlight on recent shifts in investor behavior, including a preference for systematic investment plans (SIPs), changes in sectoral preferences, and a growing interest in sustainable and ESG-focused investing. Understanding these trends is crucial for both fund managers and investors, enabling them to align their investment strategies with the ever-evolving dynamics of the market. The digital transformation of the investment landscape, driven by technology and online platforms, is reshaping how Equity Mutual Funds are accessed and managed. Robo-advisors and online distribution platforms are gaining traction, making investment more accessible and convenient. Furthermore, the study underscores the increasing importance of Environmental, Social, and Governance (ESG) factors in investment decision-making. Equity Mutual Funds adhering to ESG criteria are gaining popularity as investors seek to align their investments with ethical and sustainable principles. In conclusion, the Indian Equity Mutual Fund industry continues to evolve, adapting to the changing needs and preferences of investors while upholding rigorous regulatory standards. As more investors turn to Mutual Funds to achieve their financial objectives, it becomes imperative for all stakeholders—fund managers, investors, regulators, and financial professionals—to stay well-informed and adaptable to the shifting dynamics of this vital sector. This comprehensive study offers valuable insights into the investment systems that underpin the industry, benefiting all those involved in the Indian Equity Mutual Fund ecosystem.

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