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FINANCIAL EVALUATION OF MUTUAL FUNDS

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Abstract
Mutual fund investment has lot of changes in the recent past, and investors mentality and their expectation are changing in the present scenario. Investors preference towards return, risk varies often. The investor should compare the risks and returns before investing in a particular fund. For this, he should get the advice from experts and consultants and distributors of mutual fund schemes. The investors can invest in the mutual fund and can be to get more benefits. Periodically checking up on how the mutual fund is doing is important, and there are lots of measures that the investor can use to perform the checking. A funds track record may be the single most important factor that an investor checks before opting for a mutual fund product. Hence evaluating funds is important before investing. But it is becoming increasingly important for investors to take note of other parameters too, while deciding between mutual funds. Of course, investors need to weigh the savings on expenses against the performance record before choosing a fund. Over the past decades mutual funds have grown intensely in popularity and have experienced a considerable growth rate. Mutual funds are popular because they make it easy for small investors to invest their money in a diversified pool of securities. As the mutual fund industry has evolved over the years, there have arisen many questions about the nature of operations and characteristics of these funds. Thus the fund evaluation process helps the investors to know more about the funds and its performance.

Introduction
Investments goals vary from person to person. While somebody wants security, others might give more weight age to returns alone. Somebody else might want to plan for his child's education while somebody might be saving for the proverbial rainy day or even life after retirement. With objectives defying any range , it is obvious that the products required will vary as well.

Indian Mutual Funds industry offers a plethora of schemes and serves broadly all type of investors. The range of products includes equity funds, debt, liquid, gilt and balanced funds. There are also funds meant exclusively for young and old, small and large investors. Moreover, the setup of a legal structure, which has enough teeth to safeguard investors interests, ensures that the investors are not cheated out of their hard earned money. All in all, benefits provided by them cut across the boundaries of investor category and thus create for them, a universal appeal.

Definition of mutual fund
A mutual fund is just the connecting bridge or a financial intermediary that allows a group of investors to pool their money together with a predetermined investment objective. The mutual fund will have a fund manager who is responsible for investing the gathered money into specific securities (stocks or bonds). When you invest in a mutual fund, you are buying units or portions of the mutual fund and thus on investing becomes a shareholder or unit holder of the fund.

Review of literature
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 appreciation realized are shared by its unit holders 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.

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A Mutual fund is a body corporate registered with the Securities and Exchange Board of India (SEBI) that pools up the money from individual/corporate investors and invests the same on behalf of the investors/unit holders, in equity shares, Government securities, Bonds, Call Money Markets etc, and distributes the profits. In the other words, a Mutual Fund allows investors to indirectly take a position in a basket of assets.

Objectives

1. To study the concept of mutual funds and understand the significance and its recent trends.
2. To study the wide range of investment options available in Mutual Funds by explaining its various schemes.
3. To compare the schemes based on Sharpe's ratio, Treynor's ratio, β Co-efficient, Returns and show which scheme is best for the investor based on his risk profile.

Research methodology and tools

This study is basically of

1. Primary Data
2. Secondary Data

Primary data: The primary data collected from the different companies through enquiry.

Secondary data: The secondary data collected from the different sites, broachers, newspapers, company offer documents, different books and through suggestions from the project guide and from the faculty members of our college.

Tools used

The following parameters were considered for analysis:

- Treynor's Ratio
- Sharpe's Ratio
- β Co-efficient

Data Analysis & Interpretation:

For the purpose of data analysis and interpretation the following mutual funds have been chosen;

Kotak 30
Reliance capital Growth Fund,
HDFC Capital Builder Fund.

Kotak 30 Performance

Year	Ri	Rm	Rf	**(Rm-Rf)X**	**(Ri-Rf)Y**	**X^2**	XY	**(X - Xbar) D**	**D^2**
Last 1 Year	13.84%	8.57%	5.5%	3.07	8.34	9.425	25.603	0.78	0.608
Last 2 Years	38.67%	22.62%	6%	16.62	32.67	276.22	542.97	14.33	205.34
Last 3 Years	12.56%	5.73%	10%	-4.27	2.56	18.233	-10.93	-6.56	43.03

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Last 4 Years	25.20%	11.74%	18%	-6.26	7.2	39.18	-45.07	-8.55	73.1
Last 5 Years	27.20%	13.74%	19%	-4.26	9.2	41.18	-43.07	-6.55	75.1
Total				**4.9**	**59.97**	**384.24**	**469.7**		**397.17**

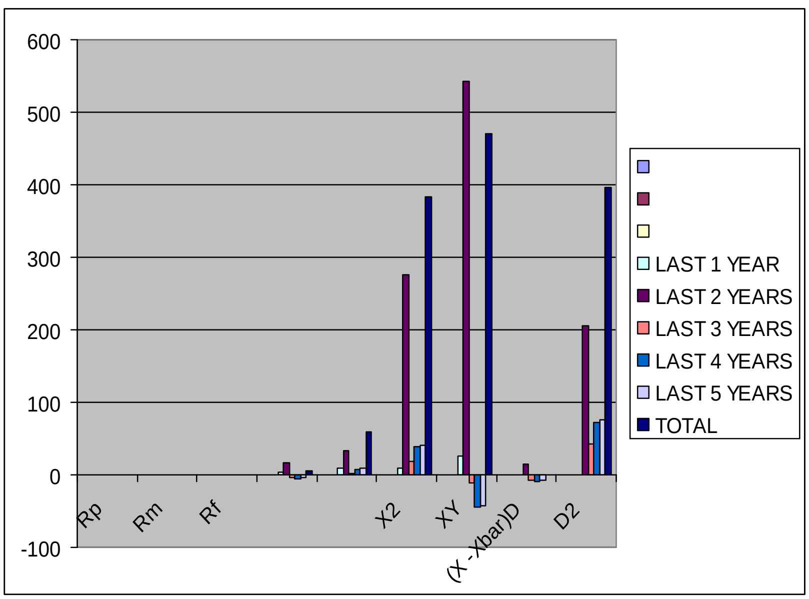
Xbar $= \Sigma X / N = 4.9/5$
$= 0.98$

Std.Deviation (σ) $= \sqrt{\Sigma(X\text{-}Xbar)^2 / N}$
$= \sqrt{397.17./5}$
$= 8.912$

Co-efficient $= \dfrac{N(\Sigma XY) - \Sigma X \Sigma Y}{N(\Sigma X^2) - (\Sigma X)^2}$
$= \dfrac{5(469.7) - (4.9)(59.97)}{5(384.24) - (4.9)^2}$
$= 1.08$

Sharpe's Ratio $= Ri\text{-}Rf / \sigma$
$= 59.97/8.912$
$= 6.729$

Treynor's Ratio $= Rm\text{-}Rf / \beta$
$= 4.9/1.15$
$= 4.26$



Findings and suggestions

1. Kotak fund stands second in terms of returns with highest risk and moderate volatility to market fluctuations. Though this is second best performance according to Sharpe ratio.
2. The Asset Management Company must design the portfolio in such a way, to lessen the risk that is prevalent in the market.
3. The investors should always check the results of the company before any investments in any company.

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Conclusion

After interpreting the above data the following conclusions have been made

Kotak 30

1. This fund involves medium risk
2. Franklin prima investments are made in Mid caps and Small caps
3. It yields lower returns compared to RGF
4. It is suitable for investors looking for medium risk and moderate returns with in a time period of 1-2 years.

Books

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