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GROWTH OF MUTUAL FUNDS IN INDIA AND ITS IMPACT ON NATIONAL INCOME

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Abstract

Mutual funds are described as "a fund established in the form of a trust to raise money through the sale of units to the public or a section of the public under one or more schemes for investing in securities including money market instruments" in the SEBI (Mutual Funds) Regulations, 1996. These regulations define mutual funds as "a fund established in the form of a trust to raise money through the sale of units to the public or a section of the public." A mutual fund is a type of financial intermediary that combines the resources of investors to make collective investments in a broad portfolio of assets. These investments can range from stocks and bonds to real estate and other asset classes. A mutual fund is one in which all of the returns, after deducting the fund's expenditures, are distributed equally to all of the participants in the fund. As a result, a mutual fund in India is able to acquire capital by selling units to members of the general public. The sale of mutual fund shares or units to the general public is the primary source of revenue generation for mutual funds. These funds are used by mutual funds to acquire a wide variety of assets such as stocks, bonds, and instruments of the money market. In 1963, India became the first country in the world to introduce mutual funds. The Unit Trust of India (UTI) is credited as being the first organisation in India to introduce the concept of a mutual fund. The collaborative efforts of the government and RBI were what made it feasible to achieve the primary goal, which was to attract small investors. Investors often choose to put their money into mutual funds or asset management companies. The Asset Management Company's fund manager is responsible for making investments for the fund in various types of securities. Investing can produce profits in the form of returns. After removing the costs associated with the investment, the profits that were created from the investments in securities are then divided to the investors.

Key Words: *Mutual Funds, Assets under Management, House Hold Savings, Risk, Returns, Investors.*

INTRODUCTION

A mutual fund is a type of financial intermediary that combines the resources of investors to make collective investments in a broad portfolio of assets. These investments can range from stocks and bonds to real estate and other asset classes. A mutual fund is one in which all of the returns, after deducting the fund's expenditures, are distributed equally to all of the participants in the fund. Mutual funds are described as "a fund established in the form of a trust to raise money through the sale of units to the public or a section of the public under one or more schemes for investing in securities including money market instruments" in the SEBI (Mutual Funds) Regulations, 1996. These regulations define mutual funds as "a fund established in the form of a trust to raise money through the sale of units to the public or a section of the public." As a result, a mutual fund in India is able to acquire capital by selling units to members of the general public. The sale of mutual fund shares or units to the general public is the primary source of revenue generation for mutual funds. These funds are used by mutual funds to acquire a wide variety of assets such as stocks, bonds, and instruments of the money market.

EVOLUTION AND ORIGIN OF MUTUAL FUNDS IN THE WORLD

Mutual fund investing can be traced back to the early pioneering investments made by Scottish and English investors in the American West in the 1800s, and later to the pioneering investments made by early global portfolio investors in Japan in the 1960s. Both of these events took place in the United States. It is true that the stock market is the ideal location for your money to generate more money, but this is only true if you begin with a significant amount of money and if you have a solid understanding of how to manoeuvre in the financial markets. In 1822, a member of royalty (specifically, King William I of the Netherlands) devised a solution that could be utilised by the general populace. The fund with limited investor access. It was a concept that was surprisingly straightforward. A collection of investors, including both people and institutions, all of whom had similar investing objectives, decided to combine their resources and entrust them to the management of several funds. The monies were then invested by these experienced money managers in various securities, and the gains were then dispersed among the members of the fund. When it was established in the 1870s, the first investment trust that had been established by Rubert Fleming pledged to manage the financial affairs of the wealthy classes in Scotland. The purpose of Fleming's trust, which was established as a limited corporation and given the name Foreign and Colonial investment trust, was to make investments in a variety of overseas government equities with an average yield of 8%. During a time when interest rates were decreasing, wealthy people became increasingly interested in the concept of trusts. The idea of a "investment trust" quickly caught on throughout Europe, and in 1893, the United States saw the establishment of its first fund. The concept swiftly expanded around the world, but it wasn't until the 1960s that it arrived in India.

1.4 WORKING OF MUTUAL FUNDS:

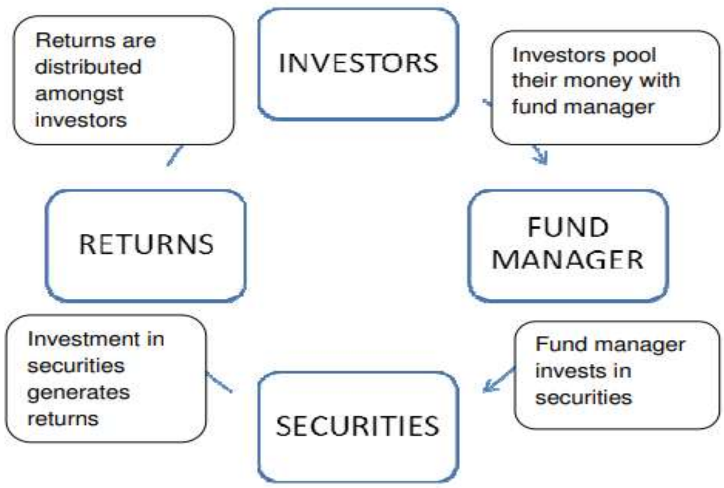

Fig 1.2 - Working of mutual funds

Investors often choose to put their money into mutual funds or asset management companies. The Asset Management Company's fund manager is responsible for making investments for the fund in various types of securities. Investing can produce profits in the form of returns. After removing the costs associated with the investment, the profits that were created from the investments in securities are then divided to the investors.

GROWTH AND PERFORMANCE OF MUTUAL FUNDS IN INDIA

In 1963, India became the first country in the world to introduce mutual funds. The Unit Trust of India (UTI) is credited as being the first organisation in India to introduce the concept of a mutual fund. The collaborative efforts of the government and RBI were what made it feasible to achieve the primary goal, which was to attract small investors.

ROLE OF MUTUAL FUNDS

1. Channelizing the savings :

The investment of the wealth of millions of individuals in various equity and debt instruments is made possible, in large part, by mutual funds, which play a very significant role in this process. Small investors' resources are pooled together in mutual funds, where they are then invested, and the profits are shared among the fund's unit holders in the same proportion as the initial investment.

2. Instrument of investing money:

A mutual fund is an essential financial vehicle for making financial investments. In recent years, with the exception of the current year 2010-11, bank rates have gotten extremely low, and in some instances, they have become lower than the rate of inflation. Therefore, putting a significant quantity of money into bank deposits will not result in a high rate of return. Putting money into the stock market is one of the choices that may be made out of those that are accessible. However, the average investor does not have the level of education or experience necessary to comprehend the complexity inherent in the fluctuations of the stock market. In this context, the contribution that mutual funds provide to assisting the general public in achieving greater returns on the investment of money in the stock market is of critical importance.

3. Facilitate the flow of saving from common man to industrial houses:

Historically, financial organisations, and particularly banks, played a crucial role in facilitating the movement of cash from the lender to the borrower. Now more than ever, the average man's money may more easily find their way into industry thanks to mutual funds.

4. Bridge the gap between retail investors and capital markets:

A mutual fund is now considered an intermediary in the capital market. It connects individual investors with the capital markets in a way that was previously impossible. It has become a new channel via which capital resources may be obtained. The expansion of mutual funds is evidence that more and more ordinary investors are entering the stock market through the vehicle of mutual funds rather than directly investing in individual companies.

5. Higher returns to small investors:

Those with little to moderate resources now have the potential to obtain high returns and a secure rate of returns on their money, benefits that were formerly reserved only for investors with extensive financial resources. Mutual funds. Investors can more easily acquire a "high return-low risk" combination through the indirect holding of shares and other assets through the use of mutual funds, which assist investors do so.

6. Reduce the risk of investing in stocks:

By spreading or diversifying assets among a wide number of distinct types of companies, mutual funds can assist in lowering the inherent risk that is associated with investing in stocks. It makes it possible for a small investor to have a stake in a big and diverse portfolio of assets, which lowers the overall level of risk associated with financial investments.

7. Professional portfolio management to small investors:

Small investors are able to reap the benefits of expert portfolio management through the use of mutual funds, which make this possibility feasible. Because of this, individuals are able to earn a rate of return on their investments that is relatively larger than the rate of return they otherwise would have gotten from their savings.

8. Saving for retirement and education:

The household's efforts to save for retirement and the children's education may be significantly bolstered by the usage of mutual funds, which can play an essential part in the process. Households can receive assistance in saving for retirement from a variety of fund schemes, each of which comes with its own set of tax advantages.

Objective

1. To compile statistics about the escalation of India's national income.
2. To comprehend the idea of the national income and the components that make it up.

IMPORTANCE (BENEFITS) OF MUTUAL FUNDS:

When it comes to the stock market, small investors confront a number of challenges, including limited resources, a lack of expert assistance, a lack of information, and so on. The investors can benefit from mutual funds in regard to the aforementioned issues. Mutual funds are investment vehicles that combine the investors' resources and then invest that pooled capital, under the direction of a group of industry professionals, in a broad portfolio of assets. They do this in an effort to reduce the potential for loss and to maintain a consistent rate of return on their assets. They make up a significant portion of the capital market as a whole. They make it possible for a large number of individual investors to get the benefits of professional fund management and a diversified investment portfolio. The significance of mutual funds can be attributed to the fact that these investments come with a great deal of favourable aspects. These are discussed in further detail below.

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1. Tap vast potential of domestic savings:

The significant objective of changes to the financial sector was to increase the use of domestic resources, with the ultimate goal of decreasing reliance on money provided by foreign sources. There is a solution to this problem in the form of mutual funds. They have the ability to assist tap into the tremendous potential of domestic savings and direct those funds toward investments that are successful. A mutual fund is a specialised form of institutional mechanism or an investment vehicle in which investors combine their resources for the purpose of making larger investments.

2. Professional management:

The typical investor does not have the information, competence, experience, or money necessary to immediately reap the advantages of investments made in the stock market. He needs the assistance of a knowledgeable person. It is not only difficult and costly to get the services of an expert, but it is also challenging to find an expert who is reliable. Professional managers oversee the management of mutual funds. These managers possess the necessary knowledge and expertise to formulate an organised investment plan. Those with smaller investment budgets might capitalise on these opportunities by purchasing shares in mutual funds.

3. Portfolio diversification:

An individual investor may not be able to invest in a diversified portfolio of securities due to lack of resources. Mutual funds invest in a number of companies across various industries and sectors. This diversification will reduce the risks of investments.

4. Equity research:

Mutual funds do invest in equity research. This gives them a lot of information and data for investments. This helps them to get a good portfolio.

5. Reduce risk:

Mutual funds help to reduce risk through diversification and professional management. Their experience and expertise in investment and building a diversified portfolio minimise their risk and maximise the returns.

6. Maximise gains:

Since the mutual funds are managed by professionals, they are expected to have a better knowledge of market behaviour. Besides, they also bring in certain competence to their job. They also maximise gains for investors in mutual funds by proper selection and timing of investment. At the same time mutual funds are not a channel for getting rich quickly, but investment in them are long-term growth avenues.

7. Reinvestment of dividends and capital gains:

The dividends and capital gains are automatically reinvested and hence are not frittered away. The automatic reinvestment feature of mutual funds is a type of forced savings. This can increase the value of investments in mutual funds in the long run.

8. Low transaction cost:

The cost of investment through mutual funds tends to be lower than that of direct investment on their own. The retail commission or brokerage costs are generally very high. In comparison, annual management and brokerage costs at mutual funds are low. Investments of large amount of funds by mutual funds bring in the benefits of economies of scale. Since these benefits are passed on to the investors in funds it reduces the transaction costs to the investors in mutual funds.

9. Safety and Liquidity:

Direct investments in the stock market are riskier than investments in mutual funds, which provide investors a safer alternative. Because SEBI monitors and oversees mutual funds, investing in them is often thought to be risk-free. In addition, there is a possibility that investors may have a difficult time selling the securities they now hold. However, when it comes to mutual funds, investors have the ability to simply cash out their assets by either selling their units directly to the fund, in the event that the scheme is open-ended, or selling them on a stock market, in the event that the scheme is close-ended.

10. Convenience and flexibility:

Investments in mutual funds are relatively easy. Further, since there are a variety of schemes, investors have the option of transferring their holdings from one scheme to the other.

11. Tax benefits:

Investments in mutual funds enjoy income tax benefits.

12. Transparency:

There is greater transparency in mutual funds as they declare their portfolio every month. The investors in the fund can know where the mutual funds invest their money. In case they are not happy with the portfolio of the fund they can withdraw their money at a short notice.

13. Stability to the stock market:

Since the mutual funds have large amount of funds to invest and have the ability to absorb any losses in the stock market, they continue investing in the stock market. This provides stability to the stock market.

14. Provide ancillary services:

Many mutual funds also provide ancillary services such as

i. Saving schemes for regular monthly investments in units.

ii. Life insurance scheme whereby investments in units are linked to the regular, monthly or quarterly payments at premiums on a life policy.
iii. Automatic reinvestment of income distribution, and so on. On account of above benefits the importance of mutual funds has been growing.

CONCLUSION

In 1963, India became the first country in the world to introduce mutual funds. The Unit Trust of India (UTI) is credited as being the first organisation in India to introduce the concept of a mutual fund. The collaborative efforts of the government and RBI were what made it feasible to achieve the primary goal, which was to attract small investors. Investors often choose to put their money into mutual funds or asset management companies. The Asset Management Company's fund manager is responsible for making investments for the fund in various types of securities. Investing can produce profits in the form of returns. After removing the costs associated with the investment, the profits that were created from the investments in securities are then divided to the investors. The sector of mutual funds in India has been through some rough patches recently. The persistent strong performance of UTI Mutual Fund was the first step on the ladder of success for the performance of mutual funds in India, and it was the first step that got India on the path to success. People in India were genuinely persuaded by UTI Mutual Fund plans to buy into the concept that they might improve their financial situation by investing in mutual funds. It was successful in luring a lot of investors. The initiative is significant from the perspectives of investors, corporations that manage mutual funds, and the government. The purpose of this study is to gain a better understanding of and insight into many areas of the mutual fund sector. When it comes to deciding whether or not to participate in mutual funds, potential investors might benefit from having access to the research's findings and recommendations. From the perspective of investors, it would also be helpful to the mutual fund businesses in terms of improving the quality of the goods and services that are now offered.

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