BOOK REVIEW: The Indian Mutual Fund Industry A Comparative Analysis of Public vs Private Sector Performance

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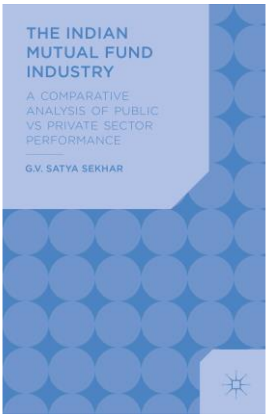

The Indian Mutual Fund Industry
A Comparative Analysis of Public vs Private Sector Performance
by *G. V. Satya Sekhar*
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Mutual fund industry: the reasons and the aims of the existence are numerous, but it is difficult to over evaluate its importance in modern world. Varying from satisfaction of mutual fund organizers' and investors' personal needs to the risks minimization and investments diversification in whole, mutual funds positively affect the economies functioning facilitating accumulation and further distribution of financial resources, their redirection to their best possible use. Thus, mutual fund industry, in some sense, precipitates perfect competition in other industries.

Taking into account the importance of mutual fund industry for India, author sets a range of objectives he consequently reaches through the study:

"…1.To trace the trends in the growth of mutual funds and changes in the regulatory measures of mutual fund industry in India.

2. To examine the factors influencing the resource mobilization patterns...

3. To examine the investment behavior of mutual funds under the three sectors,

4. To evaluate the performance of various schemes of the mutual funds in the three sectors by employing Sharpe, Treynor and Jenson models…

5. To elicit the opinions of investors in mutual funds pertaining to the promise and performance, problems and prospects of the funds…

6. To suggest suitable measures for the strengthening of the mutual funds in India."

The book consists of six parts. The first part depicts the role mutual funds play in global economy as well as analysis of mutual fund industry development, specific attention is paid to the role Securities Exchange Board of India (SEBI) plays in regulating Indian mutual funds.

The second part shapes the research methods generally used to evaluate mutual funds' performance.

Consequently, the third part concentrates on resources mobilization, including modeling the impact of different factors on gross volumes of resources attracted, separately for different mutual funds (private, public, UTI).

The forth part with mutual funds' investors' analysis follows.

The fifth part contains the description of modeling the difference in performance between private and public funds as well as modeling of different fund instruments' performance results. The sixth part on investors' behavior concludes.

Each of the parts ends up with respective conclusions.

In the research, the author tests two main hypotheses. One relates to the attempt to prove the statement "high risk-high return" for both private and public mutual funds. Another is an assumption of considerable impact of various factors e.g. "household savings in shares, debentures and mutual funds, volatility of BSE Sensex, FII investment on gross resource mobilization either in private sector or in public sector." The subsequent, "sub-ordinate", hypotheses occur further in book.

Throughout the research, the author uses various methods to test his hypotheses, such as Sharp, Jensen, Treynor models, ANOVA, T-test, and multiple correlation analysis, surveys analysis. These techniques are applied to extensive database, which is represented by data from various sources: RBI reports, SEBI annual reports, Investment Company Institute data etc. Modeling covers mostly 2003-2009, while sometimes earlier years were also analyzed.

Despite the numerous results obtained in the research, which clearly possess scientific and empiric novelty, one could mention some room for further development. The research is restricted to some period, so the related conclusions got could be applied only to those years. Moreover, as any of the crisis, neither regional Asian nor global one, was not specifically stressed in models, the results are biased to the non-crisis periods. Therefore, an author does not provide a reader with a possibility to forecast Indian mutual fund industry's future behavior. Many of the models' coefficients also have low explanatory power, as well as models in whole do. Partly this could be explained by the choice of independent variables, partly- because of rather low number of observations. The latter could have been increased if author used cross-time data series. At the same time, there is not direct correspondence between any of the main hypotheses set at the very beginning of the research and research results obtained. Therefore, it is not clearly stated, whether there is a positive relationship between risk and return in public and private mutual funds, and whether factors chosen affect mutual funds' performance.

In any case, current attempt to study Indian mutual fund industry provides readers with a well-structured example of the research output in the field and discover the room for next researches, where the authors could consult themselves to the paper discussed. All issues discovered in the book were adequately and rationally addressed. The book with no doubt proved its title.

To conclude with, the research is one of the first comprehensive studies of Indian mutual fund industry, where the author made incredible efforts trying to provide readers with qualitative evaluation of processes observed at the market during periods covered.

While the apprehension of the books needs specific knowledge (e.g. of econometric modeling), it could attract the attention simultaneously of governors, private and public investors, as well as scientists and be useful to each of them.

Thus, we can recommend this book to our readers.