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НАРАСТВАЩАТА ИНДУСТРИЯ НА ВЗАИМНИТЕ ФОНДОВЕ

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GROWING INDUSTRY OF MUTUAL FUNDS

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Abstract

A mutual fund is an SEC-registered open-end investment company that pools money from many investors and invests the money in financial portfolio.The central aim of this issue is to give an overview of the growing industry of mutual funds. The growth of the industry is reflected in its assets under management.
Mutual funds are perhaps the easiest and least stressful way to invest in the market. In fact, more new money has been introduced into funds during the past few years than at any time in history.

While some mutual funds are index funds, which aim to track the performance of a specific market index, most are actively managed, meaning fund managers follow an investment strategy to buy and sell a variety of securities in an attempt to beat the market. There are funds that focus on nearly every part of the market, and buyers can invest in a variety of assets including equities, bonds, real estate and commodities.

Key words: *mutual fund, financial portfolio, index funds, investment strategy, assets under management.*
JEL Codes: *N20, O16*

INTRODUCTION

Mutual funds are considered as one of the best available investments as compare to others they are very cost efficient and also easy to invest in, thus by pooling money together in a mutual fund, investors can purchase stocks or

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bonds with much lower trading costs than if they tried to do it on their own. But the biggest advantage to mutual funds is diversification, by minimizing risk and maximizing returns. A mutual fund provides a broader selection of investment opportunities, greater management expertise and lower investment fees than investors might be able to obtain on their own.

Creating a mutual fund portfolio involves several steps which many investors believe are too complex. To begin with, an investor needs to shortlist a few schemes with credible long-term performance record. The next step is to pick the ones that are in line with the risk profile and investment objectives. Another crucial step is to fix the composition of the portfolio. The task doesn't end here. Another equally important step is to monitor and review the performance of the portfolio at regular regular intervals.

The price of the mutual fund, also known as its net asset value (NAV) is determined by the total value of the securities in the portfolio, divided by the number of the fund's outstanding shares. This price fluctuates based on the value of the securities held by the portfolio at the end of each business day.

Mutual funds are actively managed by a professional money manager who constantly monitors the stocks and bonds in the fund's portfolio. Because this is his or her primary occupation, they can devote considerably more time to selecting investments than an individual investor. This provides the peace of mind that comes with informed investing without the stress of analyzing financial statements or calculating financial ratios.

The securities held within the portfolio often pay dividends or interest. Securities can also be sold by the fund manager after rising in value. These types of events can help generate income for the fund, which by law must be paid out to investors in the form of periodic distributions. For the most part, investors who own shares in the mutual fund at the time these distributions are made are responsible for the taxes on that money. However, the income from funds that invest in municipal bonds may be exempt from federal, and in some cases, state taxes.

Investors who own mutual funds that are not held within an IRA or another tax-advantaged account may be subject to three different types of taxes:

- ✓ Dividend income, which is generally taxed at your ordinary income tax rate;

- ✓ Capital gains from the sale of securities, which can be taxed at your ordinary income tax rate or the more favorable long-term capital gains rate, depending on how long the securities were held by the fund; &
- ✓ Capital gains when you sell or exchange shares of the fund at a profit; those capital gains could also be taxed at your ordinary income tax rate or the more favorable long-term capital gains rate, depending on how long you held those shares.

The dollar-cost averaging strategy is just as applicable to mutual funds as it is to common stock. Establishing such a plan can substantially reduce your long-term market risk and result in a higher net worth over a period of ten years or more.

There are a variety of fees that may be associated with mutual funds. Some funds come with transaction charges for buys and sells or commissions known as loads. And there are funds that charge redemption fee if you sell shares you've only owned for a short time. Investors also pay ongoing expenses to cover the cost of operating the fund; this includes investment advisory fees (paying the fund manager and the research staff), as well as transaction costs associated with buying and selling securities within the fund.

The mutual fund based in Europe falls under a different regulatory environment than the fund that is certified for investment accounts in Hong Kong. Each country has its own rules and "tastes" for how a mutual fund is constructed, and it's important to understand how these regulations shape the funds from each country.

LITERATURE REVIEW

A large number of studies on the growth and financial performance of mutual funds have been carried out during the past, in the developed and developing countries. Brief reviews of the following research works reveal the wealth of contributions towards the performance evaluation of mutual fund, market timing and stock selection abilities of fund managers.

Jack Treynor (1965) developed a methodology for performance evaluation of a mutual fund that is referred to as reward to volatility measure, which is defined as average excess return on the portfolio. This is followed by

Sharpe (1966) reward to variability measure, which is average excess return on the portfolio divided by the standard deviation of the portfolio.

Jensen (1968) developed a classic study; an absolute measure of performance based upon the Capital Asset Pricing Model and reported that mutual funds did not appear to achieve abnormal performance when transaction costs were taken into account. Carlsen (1970) evaluated the risk-adjusted performance and emphasized that the conclusions drawn from calculations of return depend on the time period, type of fund and the choice of benchmark. Fama (1972) developed a methodology for evaluating investment performance of managed portfolios and suggested that the overall performance could be broken down into several components.

The research conducted by Gordon Alexander, Jonathan Jones & Peter Nigro (1998) "Mutual Fund Shareholders": Characteristics, Investor Knowledge, and Sources of Information" carried out a survey research to determine the factors influencing mutual fund investors. They have provided an analysis of the respondents who purchased shares using the services of six different distribution channels: brokers, banks, mutual fund companies, insurance companies, employer-sponsored pension plans, and others such as financial planners. The survey has provided data on the demographic, financial, and fund ownership characteristics of mutual fund investors.

It is evident that many studies in the academic literature pay particular attention to style investing along with mutual fund performance as these concepts are at the top of the agenda today. Investment styles are classified into three distinct categories, namely style characteristics, style diversification and style consistency, and style performance. Fama and French's (1993) study lies at the heart of style investing. Fama and French (2007) find that size premium is mainly due to the additional positive returns generated by small stocks that move to a big stock portfolio in the next year. They point out the presence of three factors that deeply affect value premium. Reminiscent of Fama and French (2007), the issue of style investing and style characteristicsis further addressed by Fama and French (2007) in "The Anatomy of Value and Growth Stock Returns". Consistent with Fama and French (1993), Chen, Petkova and Zhang (2008) point out the importance of the unconditional driving sources behind the value premium. In line with Fama and French (2007), Hyde and Triguboff (2009) provide us with a more comprehensive analysis of the

relationship between value spread and value premium, and the value ratios8 in order to determine the style timing.

The relationship between style consistency and institutional portfolios is the primary topic in Ainsworth, Fong and Gallagher's (2008) paper. In order to examine style consistency of fund holdings, they perform regressions of net active style drift on lagged disaggregated net drift. These regressions are based on Carhart, and Fama and French's multifactor models. They also run regressions of style drift on fund performance, fund risk and fund turnover. Consequently, Ainsworth et al. (2008) find evidence that mutual fund managers remain loyal to their self-stated investment styles and put themselves in a unique position.

In a relatively different vein of style characteristics, Niessen and Ruenzi (2009) focus on the gender differences in the mutual fund industry. While calculating performance differences in genders, they take into account several risk, trading and style measures in order to explore various aspects of gender differences.

Christoffersen and Sarkissaian (2009) pay particular attention to the relationship between fund returns and city size. "City Size" refers to the financial centres and some other places in the US. Using Treynor ratio, CAPM, Fama and French, and Carhart multifactor models, the authors find that funds in financial centres are larger in size compared to other places.

ZakriY.Bello (2005) matched a sample of socially responsible stock mutual funds matchedto randomly selected conventional funds of similar net assets to investigate differences incharacteristics of assets held, degree of portfolio diversification and variable effects of diversification on investment performance.

METHODOLOGY

This study uses a wide range of sources. To achieve the object of this paper, the mutual funds data has been collected. The primary information is mostly from websites, books, journals, etc. Also, a lot of facts and data from investment funds and mutual funds literature are taken into consideration.

ANALYSIS AND DISCUSSION

When choosing the best funds to buy, no matter the duration of the holding period, investors are smart to choose among the best, low-cost, no-load funds. This is because keeping costs low is a fundamental aspect of producing higher returns, especially in the long run.

Market and economic conditions are extremely difficult to predict over short periods of time, especially those less than one year in duration. But when investor expands the holding period to two or three years, he can make reasonable forecasts. Even the best of portfolio managers know that they may perform below market averages for one out of three years.

There are currently more than 9,000 mutual funds that hold more than $16 trillion in assets. In part because of increased competition for those assets from lower-cost ETFs, mutual fund expenses continue to decline. Expense ratios averaged 0.63 percent in 2016 compared with 1.04 percent in 1996, according to the Investment Company Institute, though some funds levy additional management fees or sales charges that buyers should be aware of before purchasing.

Worldwide, nearly $28 trillion is invested in mutual funds. As the number of mutual funds has grown, so too has their scope and strategies. For example, as of 2013 in the U.S., there were 1,329 U.S. equity funds, 1,345 global funds and 1,866 total return funds, 594 investment grade bond funds, 225 high-yield bond funds, 270 global bond funds, 214 government bond funds, 143 multi-sector funds, 560 state and national municipal bond funds, 382 taxable money market funds and 173 tax-free money market funds. With the rise of 401(k) accounts and 529 college savings accounts (for example), it is estimated that today more than half of American households invest in mutual funds.

The global mutual fund industry's assets have grown more than sevenfold in the last two decades, according to a new research report by Investment Global Institute – ICI Global. The report, Globalization and the Global Growth of Long-Term Mutual Funds, finds that mutual funds worldwide have experienced strong growth in assets over the past two decades, increasing from $4 trillion in 1993 to almost $29 trillion in September 2013. This growth reflects increases in each of four broad regions—the United States, Europe, Asia-Pacific, and the rest of the world. Broken out by region:

- ✓ The US market expanded nearly 600 percent, to $14.3 trillion in assets
- ✓ European markets grew 640 percent, to nearly $9 trillion
- ✓ Asia-Pacific fund assets rose 450 percent, to $3.3 trillion
- ✓ Fund assets in the rest of the world—including Canada, Chile, and Brazil—grew 2,200 percent, to $2.3 trillion

Recent developments clearly signal the return of stability and buoyancy to European markets. The region's financial system has passed safely through rough weather and banks and financial systems alike have responded favorably to the central bank's stress tests. With a mix of mature and emerging markets, the region offers investors a balance between growth opportunities and secure investment destinations. European mutual funds offer investors these unique advantages along with the benefits of diversification and professional management.

The are five top-rated European mutual funds (each has earned a Zacks No. 1 rank, meaning they're a strong buy recommendation):

- ➢ Putnam Europe Equity A (PEUGX) invests at least 85% of its assets in European companies (common stock, primarily common stock of European firms). It invests in companies regardless of their market capitalization. The European mutual fund returned 8.08% in the last one-year period;
- ➢ T. Rowe Price European Stock (PRESX) seeks long-term capital growth. The fund invests heavily in companies in Europe. It usually invests in at least five countries at any given time. The European mutual fund has a five year annualized return of 2.8%;
- ➢ Ivy European Opportunities A (IEOAX) invests at least 80% of assets in equity securities of European companies (preferred and common stock and convertible securities). It invests in companies of all sizes, selecting small-cap companies in developed markets. The European mutual fund returned 5.24% in the last one-year period;
- ➢ JPMorgan Intrepid European A (VEUAX) seeks capital appreciation over the long term. The fund focuses on acquiring equity securities of companies with significant business operations in Western Europe. Up to 20% of its assets may be invested in debt securities that are not dollar denominated. The European mutual fund has a 10-year annualized return of 3.85%;

- Fidelity Europe Capital Appreciation (FECAX) invests primarily in European securities and instruments with linkages to the European continent.. The European mutual fund returned 3.86% in the last one-year period and has a five-year annualized return of 2.15%.

Luxembourg and Ireland are the primary jurisdictions for the registration of Undertakings For The Collective Investment Of Transferable Securities - UCITS funds. These funds may be sold throughout the European Union and in other countries that have adopted mutual recognition regimes.

Figure 1. Overall Top-Rated Mutual Funds as of 8/31/17

Fund Name	Overall Rating	Risk Grade
AQR Long Short Equity N	A+	B
Voya Securitized Credit P	A+	B+
DoubleLine Shiller Enhanced	A+	B
Fidelity Japan Small Comp	A+	B-
NWM Momentum	A+	B
GMO Opportunistic Income VI	A+	A-
DFA Japanese Small Co Inst	A+	B-
Colorado Bond Shares Tax-Ex	A+	B+
Value Line Mid Cap Focused	A+	B
Hennessy Japan Small Cap Inv	A+	C+
Manning & Napier Rainier	A+	B-
T Rowe Price Japan	A+	C+
Catalyst/Millburn Hedge Strat	A+	B
Russell Select US Equity S	A+	B
AQR US Defensive Equity N	A+	B-
Evermore Global Value Inv	A+	C+
Performance Trust Strat Bond	A+	B
VALIC Co II Intl Op	A+	C+
Lazard Global Listed Infr	A+	C+
DFA Continental Small Co Inst	A+	C+

Source: https://www.thestreet.com/topic/21421/top-rated-mutual-funds.html

In the United States, mutual funds play an important role in U.S. household finances. At the end of 2016, 22% of household financial assets were held in mutual funds. Their role in retirement savings was even more

significant, since mutual funds accounted for roughly half of the assets in individual retirement accounts, 401(k)s and other similar retirement plans. In total, mutual funds are large investors in stocks and bonds.

CONCLUSION

Mutual funds are one of the most popular ways for new investors to build wealth. The biggest advantage of investing through a mutual fund is that it gives small investors access to professionally-managed, diversified portfolios of equities, bonds and other securities, which would be quite difficult to create with a small amount of capital. Unlike most other types of investment funds, mutual funds are "open-ended," which means as more people invest, the fund issues new units or shares. A mutual fund typically focuses on specific types of investments.

Calculating mutual fund returns is not as easy as it sounds. Too often, investors account for only the explicit costs of trading and forget about the implicit tax costs; these costs can significantly reduce the amount of a return.

Since their creation, mutual funds have been a popular investment vehicle for investors. Their simplicity along with other attributes provides great benefit to investors with limited knowledge, time or money.Mutual funds provide many important benefits to investors; these benefits particularly apply to investors who are just beginning to invest. There are five steps to buying a mutual fund: determine investor's investment objectives, choose an appropriate investment benchmark, and identify funds that meet investor's objectives, evaluate the funds, and make the purchase.

Since a mutual fund can include hundreds of different securities, the performance of the fund is not dependent on any single security: the risk is spread among the various securities. In most cases, a portfolio manager is assigned to monitor the performance of securities in the fund. Well-chosen mutual funds can help you achieve investor's financial goals.

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