Investor Awareness about Mutual Funds with Respect to Sector Funds and Contra Funds

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Abstract

Mutual funds are new age investment offering flexibility, liquidity and more options to the investor. Mutual funds are broadly divided into four categories based on Assets Class: Equity Mutual Funds, Debt Mutual Funds, and Hybrid Mutual Funds. All these Mutual Funds are also further sub divided into many categories. The present study will focus on Sector Mutual Funds and Contra Mutual Funds which are the part of Equity Mutual Funds. Many investors know about mutual funds but very few investors are aware about the sector funds and contra funds. The success of any mutual fund depends upon the awareness and confidence level of the investors. This study will help investors to know more about these two funds in detail like how they work, advantages, disadvantages, past returns, etc. which will help investors to add the same into their portfolio for future investment.

Keywords: ***Mutual Fund, Investment, Investor awareness, Sector Fund, Contra Fund.***

Introduction

"A mutual fund can do for you what you would do for yourself if you had sufficient time, training, and money to diversify, plus the temperament to stand back from your money and make rational decisions"

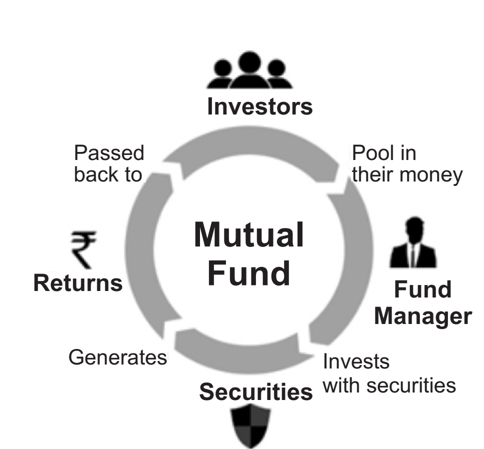
Venita Van Caspel

A mutual fund is an investment vehicle which allows investors with similar (mutual) investment objectives, to pool their resources and employ this resource in such a manner as to provide combined benefits of steady return, low risk, high liquidity and capital appreciation through diversification and expert management of fund manager. Mutual funds are new age investment offering flexibility, liquidity and more options to the investor.

The Securities and Exchange Board of India (SEBI) Regulations, 1996 defines a mutual fund 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'.

Concept of Mutual Fund

- Many Investors with Common Financial Objectives Pool Their Money.
- Investors, On A Proportionate Basis, Get Mutual Fund Units for The Sum Contributed to The Pool.
- The Money Collected from Investors is Invested into Shares, Debentures and Other Securities by the Fund Manager.
- The Fund Manager Realizes Gains or Losses and Collects Dividend or Interest Income.
- Any Capital Gains or Losses from Such Investments are Passed on to The Investors in Proportion of the Number of Units Held by them.



Flow of Mutual Fund

Source:https://www.fincash.com/l/mutual-funds-india

Types of Mutual Funds

Mutual funds offer one of the most comprehensive, easy and flexible way to create a diversified portfolio of investments. There are different types of mutual funds available, four broad types of mutual funds: Equity Funds, Debt Funds and Hybrid Funds (Balanced Funds).

- **Equity Funds**

Equity funds primarily invest in stocks, and hence go by the name of stock funds as well. Equity mutual funds buy stocks of a publicly traded companies. They invest the money pooled from various investors from diverse backgrounds into stocks of different companies. The gains and losses associated with these funds depend solely on how the invested shares perform (price-hikes or price-drops) in the stock market. Also, equity funds have the potential to generate significant returns over a period. Hence, the risk associated with these funds also tends to be comparatively higher. The younger you are, your portfolio should include more equity funds. Financial planners advise, youngsters have more time to whether inevitable ups and downs in market value.

- **Debt Funds**

Debt funds are the second most popular mutual fund type. Debt funds invest primarily in fixed-income

securities such as bonds, securities and treasury bills. They invest in various fixed income instruments such as Fixed Maturity Plans (FMPs), Gilt Funds, Liquid Funds, Short-Term Plans, Long-Term Bonds and Monthly Income Plans, among others. Since the investments come with a fixed interest rate and maturity date, it can be a great option for passive investors looking for regular income (interest and capital appreciation) with minimal risks. Advisors say equity funds favour the young, investors nearing retirement should have more debt funds in their portfolio to protect their nest egg while earning more interest than sitting that cash in a bank savings account.

- **Hybrid Funds**

Also known as asset allocation funds, as the name suggests hybrid funds (Balanced Funds) is an optimum mix of bonds and stocks, thereby bridging the gap between equity funds and debt funds. The ratio can either be variable or fixed. In short, it takes the best of two mutual funds by distributing, say, 60 percent of assets in stocks and the rest in bonds or vice versa. Hybrid funds are suitable for investors looking to take more risks for 'debt plus returns' benefit rather than sticking to lower but steady income schemes. The best variety of these funds are target-date funds, which automatically reallocate the ratio of investments from equities to bonds the closer you get to retirement.

Statement of Problem

Mutual fund is one of the profitable investment avenues available for investors nowadays. The problem at the same time is investors are less aware about the different types of mutual funds available in the market. The present study will create awareness about mutual fund with respect to sector funds and contra funds. The study will help investors to know more about these two funds in details like how they work, advantages, disadvantages, past returns, etc. which will help investors to add the same in their portfolio for future investment.

Objectives

1. To create awareness about Sector Funds and Contra Funds.
2. To provide detail information about Sector Funds and Contra Funds.
3. To come up with recommendation's for investors to add Sector Fund and Contra Fund in their portfolio for future investment.

Sector Fund & Contra Fund

Most people invest in mutual funds to seek potential returns at relatively low risk. However, this is not the case for all mutual funds. Sector Funds and Contra Funds are two such funds that

carry much higher risks compared to others.

- **Sector Mutual Fund**

As the name suggests, a sectoral fund is a type of mutual fund that aims to invest in a few specific sectors of the economy. There are mainly four different types of sectoral funds: Banking & Financial Services, Infrastructure, Technology and Pharmaceuticals and Healthcare. Main aim of these funds is to benefit from sectors that are performing well depending on the investment objective of the scheme. These funds are more focused as compared to diversified equity funds.A sectoral fund invests only in companies of a particular sector. For example, a Pharma fund will invest only in pharmaceutical companies, banking and finance fund will invest in companies that are in banking/finance sector.

Sector funds invest in one or two sectors. These funds are highly focused. The mandate of a sector fund to invest in shares of companies that belong only to the sector for which such a fund is launched. Sector funds were launched in 1999-2000 when shares of technology companies did well on the back of the information technology (IT) boom.

Sector mutual funds aim to take advantage of the market situation by investing in those fields which have the highest potential of growth or are already the fastest expanding sectors of the country.

The below table provides the major categories of sectoral funds and their returns (As on 2018):

S. No.	Sector	1 Yr %	3 Yr %	5 Yr %
1	Banking & Financial Services	14.80%	6.90%	8.70%
2	Infrastructure	21.60%	11.40%	17.40%
3	Technology	25.70%	4.60%	14.40%
4	Pharma & Healthcare	-4.30%	0.10%	11.30%

(Source: Wealthtrust.in)

As you can evaluate from the above table, sector funds provide higher returns as compared to other mutual funds, but at the same time it has its own advantages and disadvantages which are stated as follows:

Advantages of Sector Funds

1. Potentially high returns if chosen correctly.
2. These funds hold stocks across all market cap within that sector.

3. With sectoral funds one could also diversify his portfolio by allocating percentage (%) for each sector and buying sectoral funds accordingly across various sectors.

Disadvantages of Sector Funds

1. Higher volatility than any other diversified equity.
2. A wrong sector can heavily dent the portfolio returns.
3. Need proper knowledge on markets and macroeconomic situation.

There are many Asset Management Company's (AMC's) like SBI, ICICI, L & T, Aditya Birla, Reliance, UTI etc. have their sector fund in many of the above-mentioned sectors. Below are the top 10 sector funds and their last 5yrs return as on 2018:

S. No.	Fund Name	1Yr %	3Yr %	5Yr %
1	L&T Infrastructure Mutual Fund	54%	23%	24%
2	ABSL Infrastructure Mutual Fund	43%	14%	20%
3	ICICI Pru Banking and Financial Services Fund	40%	18%	22%
4	Reliance Banking Fund	39%	14%	17%
5	SBI FMCG Fund	52%	18%	20%
6	Reliance Pharma Fund	8%	4%	16%
7	ICICI Pru Tech Fund	28%	3%	18%
8	ABSL New Millennium Fund	33%	10%	18%
9	UTI Transportation and Logistics Fund	32%	14%	31%
10	Sundaram Rural Fund	32%	19%	21%

Who should invest in Sector Funds?

Sectoral funds are funds that are really meant for educated investors who often analyses the macroeconomic situation of sectors. The prime reason for investing in sector funds is to beat the market returns as they have high risk-reward ratio. So, when an educated investor feels that this sector would be the future for next couple of years then buying sectoral funds would help them in beating the diversified fund returns.

- **Contra Mutual Fund**

Contra funds are equity mutual funds that take a contrarian view on the market. Underperforming stocks and sectors are picked at low price points with a view that they will perform in the long run. The portfolios of contra funds have defensive and beaten down stocks that have given negative returns during bear markets. Contra funds involve a unique style of investing to gain market advantage. Underperforming companies are targeted and carefully evaluated to discover the reason behind it.

A contra fund holds the belief that when stock market sentiment is running against an industry or company, the assets are undervalued and worth investing in, so when everyone else is burning their bridges with that company and selling off their stock, a contra fund decides this is the ideal time to purchase or buy the company's share at low price. The adverse market condition will lower the share price of that company. Thus, investing in these undervalued assets will generate higher than average return on investments in medium to long term period.

Advantages of Contra Mutual Fund

1. Higher profits can be earned by investing in contra funds as compared to standard equity mutual funds. Blue-chip companies have a glass ceiling on the share price growth. Thus, huge profits cannot be availed, as compared to contra companies, whose share prices fluctuate at a higher rate.
2. As contra funds have not gained high popularity in the country, the minimum investment price is relatively low. Thus, the initial investment can be less in case of such funds. As the price rises in the long term, you can make substantial capital gains. Many contra funds do not charge any entry or exit load as well, lowering the cost of investing. Equity mutual funds, on the other hand, have a lot of added expenses making it a costly option.
3. Generally, contra funds are exposed during times of stagnant economic growth of the country, when the investment level is low. This implies weak and unreliable predictions of stock market indices of such small-cap companies.

Disadvantages of Contra Mutual Fund

1. The contra fund does not yield positive results in the short term. Investors have to wait for a considerable time to realise profits.
2. Another disadvantage of Contra Funds is they function in a

contradictory way, opposite to the way most other funds do.

Below are the different contra funds and their last 5 years returns (As on 2018):

S. No.	Fund Name	1 Yr %	3 Yr %	5 Yr %
1	Invesco India Contra Fund	19.5%	14.7%	27.8%
2	Kotak India EQ Contra Fund	16.2%	12.5%	19%
3	SBI Contra Fund	2.6%	7.3%	16.7%

Who should invest in Contra Funds?

Contra funds invest in 'out of the flavour' themes and hence may not perform in short term. Hence investors with a very long-term investment horizon should invest in these funds. The contra fund does not yield positive results in the short term. Investors have to wait for a considerable time to realise profits. Investors targeting contra funds are risk-takers, as they gamble on the turbulent fluctuations of the stock market.

Limitation of the Study

The scope of this study is limited to Sector Mutual Funds and Contra Mutual Funds. The data is collected through secondary sources only. The returns projected in these two categories of different funds is as per the data of 2018. Only top 10 sector funds are considered while projecting the returns.

Conclusion

The past returns of Sector Funds & Contra Funds are better than any other equity funds, but at the same time both are risky. Both Sector Funds and Contra Funds are suitable for investors who have advance knowledge of macro trends and prefer to take risk for higher returns as compared to other Equity funds. At the same time, these investors should also be ready for possibility of moderate to high losses in their investments even though overall market is performing better. Hence, investors should keep in mind that sector fund and contra fund does not contribute major portion of investment in their portfolio. Today's young generation with existing diversified portfolio can take risk of investing10 percentage of their total investments to these types of funds, as they have more time to view unavoidable ups and downs of market value and this may give a jump to their portfolio with better returns.

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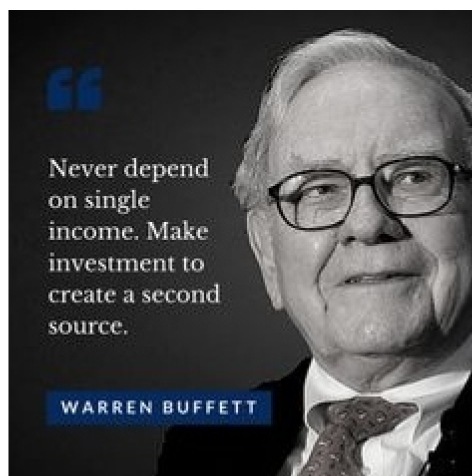

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