Mutual Funds in the era of economic reforms in India- A critical review

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Abstract

This article has tried to focus the impact of reforms on Mutual Funds (MF), the present status, as well as the responsibilities which automatically and spontaneously evolve around MF agencies. As because they invite investments from public with the intention to provide fair return, their responsibilities are undoubtedly immense. Because of vulnerability arising out of economic reforms our MFs are no more immune to world economic doldrums and the expectations of the investors are not fulfilled to what extent these were satiated by the UTI in eighties and in the beginning of nineties.

Of recent, the return on the capital invested by the public in MF is not encouraging. Moreover, the role of MF in stabilizing the capital market is not conclusive.

We have shown here that our MFs inspite of so many obstacles can also dominate the capital market and play a bigger role in the economy.
***Key words**: Mutual Fund (MF), Economic reforms, Investors, Capital Market, Responsibility*

The beginning and era of Unit Trust

The concept of mutual fund (MF) perhaps developed in Egypt when its merchants travelling in different countries across the world either by caravan or by ships , sold shares to spread the risks of their ventures. However, the present day concept was developed in US. In India, the emergence of Unit Trust of India in 1964 with the object of mobilizing the domestic ordinary and potential investors' fund in fruitful manner and channelizing the funds so collected to capital market for its healthy growth as well as to provide fair return to the investors, was the first step towards MF. At present the Mutual Fund is a mechanism for pooling the resources from retail investors /groups in exchange of issuance of units and investing the said funds in securities in capital market in accordance with the objective of benefits of the investors as a whole.
The story of Unit-64 is known to majority of senior citizens across the country. There was tremendous rush for purchase of units in every July of the year in nineteen seventies and especially in eighties. The reason was simple – the returns were handsome (much higher than bank interest). But alas those sunny days are no more.
The economic reforms which started in early nineties, have given a lot to us, at the same time certain benefits have disappeared in the context of new situation. Nothing in this world can be termed as perfect. Everything has both dark and bright sides and our MF industry is of no exception.

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The period of UTI (1987-1993) and public sector Mutual Fund

So long UTI alone was there, the Indian capital market was virtually being controlled by it. But during the later part of the decade eighties the emergence of mutual funds controlled by domestic nationalized banks began to change the dominance of UTI in the capital market segment. First came SBI (1987) and Canara Bank followed by LIC, Bank of India, and GIC etc. At that time investments in mutual fund was very popular among general public.

The beginning of economic reforms ushered development in various fields and MFs are of no exception. MFs presented themselves to the public or investors in different form and initially it appeared as a boon to the investors. The status of MF industry changed a lot and major attractive schemes originated with listing provision in the stock exchanges.

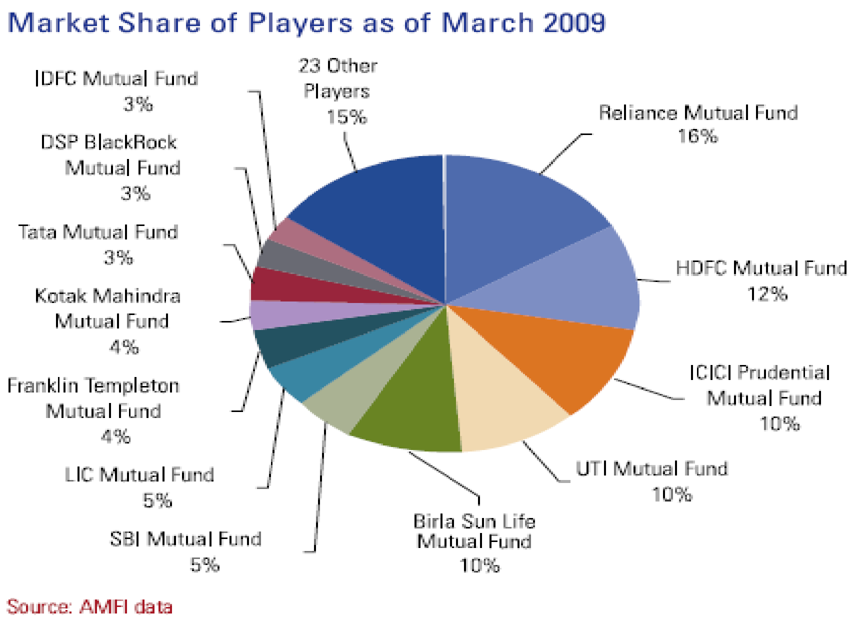
The story of Master Share and Master Plus is well known to all connected with the capital market. With the success of Master share/ Master Plus, the craze for investment in Master Gain' 92 was more than a history. Almost every earning person in urban and semi-urban areas tried his best to acquire some amount of units. The scheme was subscribed heavily. At that time the economic liberalization was started and the foreign institutional investors (FII) started pouring in India.

On the back of Master Gain 92, the mutual fund manager Morgan Stanley in 1993 also came out with its mutual fund scheme. That was also oversubscribed. During this time a plethora of mutual fund schemes were issued in the market and public responded favorably to them. Unfortunately, the two popular schemes - Master Gain 92 and Morgan Stanley mutual fund - heavily disappointed the general public by failing to provide minimum (at least contemporary highest bank fixed deposit interest) return. This acted as dampener for mutual fund schemes at that time. Though innumerable mutual fund schemes so far have appeared but no such craze has developed as what noted for Master Share and Morgan Stanley mutual fund. The later parts of this article will try to focus on how the role of MF can be made more effective and conducive to the society in general in the context of economic reforms.

The era of private mutual fund

From 1993 onwards the mutual fund witnessed the entry of private players. The economic reforms opened door to the private Mutual Funds both domestic and foreign. The Kotak Pioneer mutual fund (now merged with Franklin Templeton) was the first to be registered in July 1993. Over time the AUM (Assets under Management) of private players have gone up excessively and in 2009 the situation was quite different. The Diagram-1 shows the picture more vividly.

DIAGRAM - 1



(The chart indicates clearly that Mutual Fund market is being dominated by the private mutual funds. The share of UTI or mutual funds owned by public sector banks or LIC is quite low.)
With passage of time many MF companies both Indian and foreign entered the market and their dominance is now known to all and requires no mention. If things go in this manner many new players will join in the coming days and this industry will achieve more maturity.

Common investors' lack of knowledge about capital markets and the role of Mutual fund
It has been noted that common investors in general lack the required skill and competence which are very much required for investment in capital market especially in equity market. Mutual funds with its team of experts provide the necessary information, knowledge and the timing of investment on behalf of ordinary investors thereby providing the safety and reliability that the ordinary investors expect from a reliable institution. The managers of mutual funds have the necessary infrastructure by which they can access to information which is required for analysis of each project / company under the then economic scenario and based on the result they determine their investment portfolio. The research in respect of different areas of financial investment is their main task.
The return what is expected of an investment by ordinary individual is virtually not absolutely guaranteed by mutual fund when the investment is channelized through them. Like any other business, there is always some risk involved in schemes of mutual funds as well. It is universally true that capital market investment is subject to uncertainties and variation of return. Therefore perfect guarantee of return is never assured of by any Mutual Fund. However, Mutual Funds make an attempt to spread investments in securities across wide ranges of industries and sectors and thus the risk is spread over various items and reduced.
Diversification lowers the risk because all stocks may not move equally in magnitude and in the same manner at the same time. Mutual Funds also invest their fund in debt schemes and other RBI approved schemes (money market and Govt. Securities Market) to minimize the risk of

various investment schemes. Because of diversified portfolio, mutual fund reduces the risk of earning even in dull phase and the fund managers thus try to ensure some amount of return which in ordinary course may not be available to ordinary investors in such situation.

In this way common investors minimize their risk as well as secure steady return from mutual fund.

From the aforesaid statements it is well understood that the responsibility of fund managers is immense. It is to be remembered that occasionally in bull phase there are tremendous rush for investment in public issues. Moreover, a lot of public issues simultaneously appear for subscription from public. Under the circumstances, it is practically difficult for ordinary investors to judge each project/public issue. In such situation, the need for well defined financial institutions is felt and Mutual Funds take the cudgel on behalf of ordinary investors.

Again, especially in bull period, ordinary investors are not assured of allotment of equity shares by the reputed companies because application for small lots throng in massive numbers and naturally only a small fraction of small/retail investors get the shares of the desired companies. Mutual Funds again on behalf of the ordinary investors can procure these shares for variety of schemes when they make up their portfolios.

Sometimes some good companies offer right shares at high premia which are beyond the capacity of purchase by the small investors or even in extreme bear phase these good shares often remain at a significant higher level and remain out of reach of these sections of people. MF on behalf of this conglomeration of investors procures good shares to provide good return to the investors when sunny days begin. Thus ordinary investors become the owners of expensive shares simply by investing even a meager amount say Rs 500.00 in MF scheme.

Growth of Mutual Fund in India

At present the number of SEBI registered mutual fund is almost half a century. At the end of 1993, the mutual fund industry had assets under management of Rs.47,004 crores. With the advent of private players the growth of Mutual Funds was quite significant and assets under management were increasing rapidly.

Actually our Mutual Fund industry staged a spectacular development during the period of 2002 to 2008 during which time corpus Mutual Fund increased to a great extent. However, there was adequate reason for such massive rise. During this time our stock market made a sustained rally over the years and attained astronomical figure of 21000. MFs also offered good returns to their investors for a few years. Some impetus was there for MF.

DIAGRAM-2

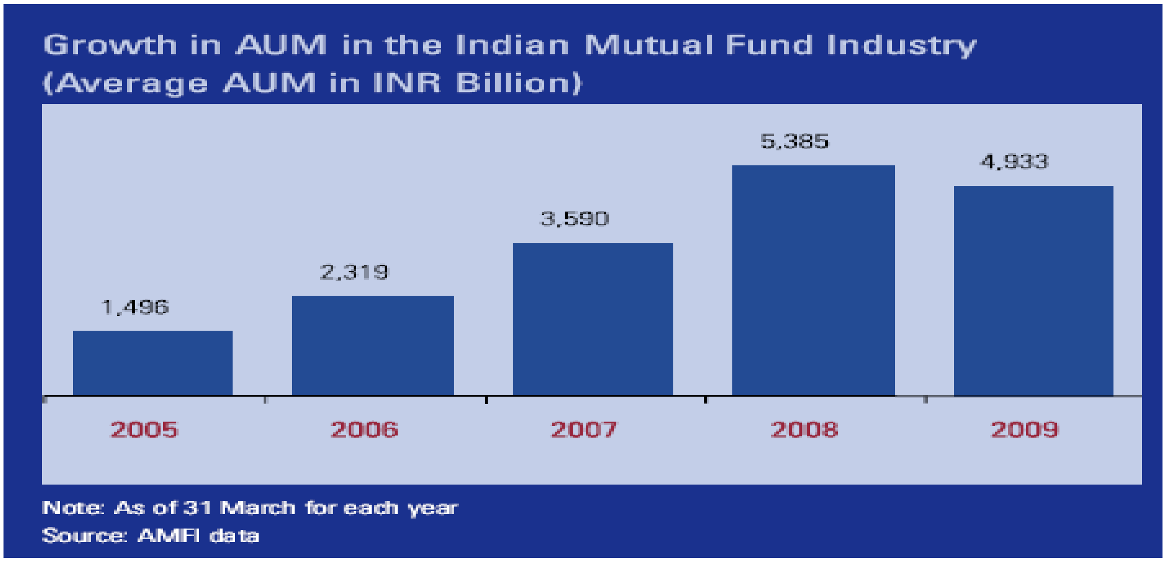


Diagram 2 shows the year wise growth of MFs from 2005 to 2009.

At the end of January 2003, there were only 33 mutual funds with total assets of Rs.1, 21,805 crores. By March, 2008 assets under management shot up to Rs.5,38,500 Crores (approx) (diagram 2 corroborates that) under 421schemes.

"Mutual fund industry has been undergoing drastic changes in the past few years. After crossing the INR 8000bn size in May'10, the total corpus of mutual funds witnessed a decline in June'10 and stood at INR 6758bn largely owing to redemption pressure on account of advance tax payments and 3G spectrum auction payments. Indian equity market sentiments remained weak owing to the volatile movements in stocks largely on the back of fear of double dip recession and deepening of the Euro zone crises". (Report from ICICI Bank in 2010)

However, It has grown to over 7 lakh Crores by 31st March 2011, thus within 5 years it has increased to almost 5 times. Still AUM of MF is less than 10% of GDP.

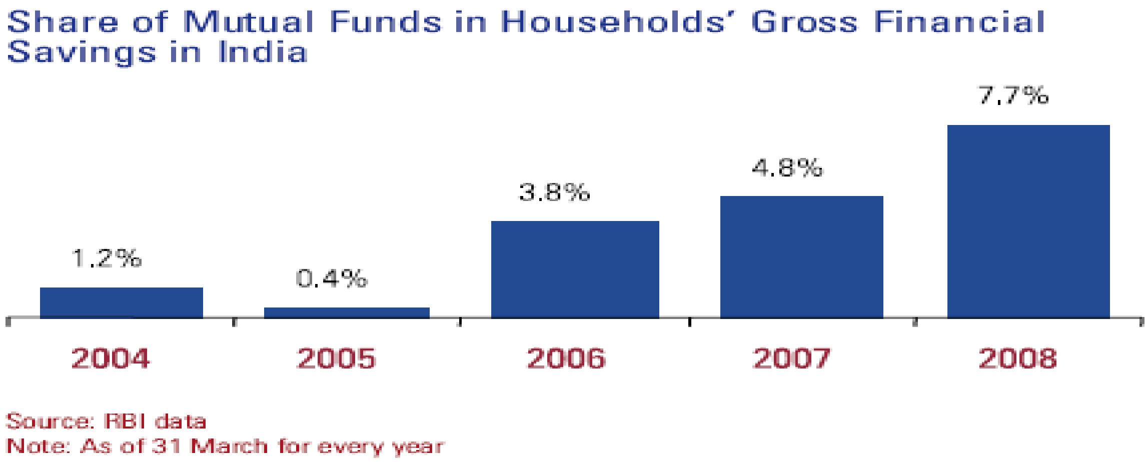
The world-wide fall of stock market because of subprime effect in US also caused havoc with Indian MF industry in 2008-09. Sensex dropped below 8000 mark and NAV (Net Asset Value) of various schemes of MFs also dropped significantly. Huge redemptions also took place. New issues suffered a lot. As a result, AUM decreased to some extent in Indian MFs industry.

However, this growth has been limited mainly to urban areas of the country while participation from rural areas is very poor. We will try to identify causes of such discrepancies in following paragraphs.

Low retail participation from areas other than big cities and responsibilities of Mutual Funds

The exposure of household savings in mutual fund (Diagram-3) is insignificant compared to household investment in banks/post offices and insurance agencies. This is mainly because MF is popular and confined with urban middle and high income segment only. The majority of rural population was left outside the purview of MF, perhaps due to inadequate infrastructure for penetrating the rural sector.

DIAGRAM-3



However the scenario has been slightly changed recently as is evident from the following paragraph.

"Only 11 per cent (that is, 24.5 million investors) of the households surveyed made investments in the securities market. It was also found that a chunk of the investors ***were urban Indians***, what with ***20 per cent of the urban households*** invested in markets as against ***6 per cent in rural India.*** From 2004 to 2008 the mutual fund industry in India witnessed a spectacular growth compared to other parts of the world but still fund under our mutual fund sector is significantly lower than developed nations. This signifies that penetration of the mutual fund in the country as a whole with special reference to the rural sector (which constitutes the largest section of people) is insignificant. (Businessline –"How Indian households save and invest") **(www.thehindubusinessline.com)**"

Penetration of MFs into tier II and tier III cities is very low, though their overall population is much higher than the big cities. With establishment of proper infrastructure and development of appropriate schemes to attract the low income groups, mutual fund industry can penetrate deep into that section.

According to a report published by KPMG and CII in 2009 it was noted that despite clocking growth rates that were amongst the highest in the world, the Indian mutual fund industry continued to be a very small market; comprising 0.32 percent share of the global AUM of USD18.97 trillion as of December 2008 .

Perhaps economic factors coupled with literacy or perception of mutual fund and their activities stand in the way of investment in mutual fund. The sentiments are not adequate enough to intrigue them to channelize their savings into this sector. To bring the people under their umbrella needs a gigantic effort on the part of the mutual fund. It is sure our MFs are quite competent enough to accept this challenge. Their marketing department should be armed with proper programmes and schemes to attract rural and non-urban people.

Marketing department of these institutions may contemplate or explore possibilities of introduction of Schemes in the style of 'KISHAN ROJGAR' or 'GRAMEEN SURAKSHA' etc. purely for this untapped rural segment of people with some special incentives, say issue of units at a slight discount and removal of entry /exit load etc. To this effect, the Government controlled MF should take the leading role. However, the private MFs cannot keep themselves away as private MFs hold the bulk share AUM.

Lack of stability of return from various schemes casts shadow on popularity of MF

At present, the craze for mutual fund schemes is very poor as many mutual fund schemes have even failed to offer a return equal to the bank interest. Some are trading at a NAV much below the face value. This is mainly due to poor performance of many mutual fund schemes because of significant fall in capital market index. **Of course there are some schemes which are still offering good returns.** But the percentage is quite low. Table-1 will provide an idea of the performance of some mutual fund during 2011). This reveals that many such schemes are not at all attractive with respect to earning.

Table -1 (returns in %)

Scheme Name	**1mth**	**1yr**	**3yr**	**5yr**	**Inception**
ICICI Prudential Equity & Derivatives Fund - I O - IP -	0.50	9.04	6.59	NA	7.65
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UTI Spread Fund - Growth	0.72	7.85	6.92	7.74	7.69
Birla Sun Life Savings Fund - Institutional - Growth	0.78	8.36	7.01	7.48	6.81
Birla Sun Life Savings Fund - Retail - DAP	0.67	7.31	NA	NA	5.61
ICICI Prudential RIGHT Fund - Growth	-7.22	2.61	NA	NA	10.92
HDFC Childrens Gift Fund - Investment Plan	-5.12	10.26	17.63	13.21	17.78
ICICI Prudential Balanced - Growth	-5.04	5.07	10.35	8.40	13.72
Franklin Templeton Capital Safety Fund - 5 Years Plan -	-0.87	3.87	8.86	NA	7.00
Escorts Income Bond - Growth	-0.07	20.49	13.30	12.66	8.50
Sahara Short Term Bond Fund - Growth	0.76	13.11	NA	NA	8.97
UTI Gilt Advantage Fund - Long Term Plan - Growth	1.71	8.49	9.06	7.27	8.04
Franklin Pharma Fund - Growth	-6.00	7.58	27.60	17.70	15.79
Birla Sun Life MNC Fund - Growth	-6.92	4.79	23.32	14.49	19.15
Reliance Money Manager Fund - Retail - Growth	0.75	8.00	6.74	NA	7.37
IDFC Liquid Fund - Plan F - Growth	0.63	7.60	NA	NA	6.94
ICICI Prudential Service Industries Fund - Growth	-8.88	-10.25	3.35	6.70	8.03
ICICI Prudential Interval Fund -	0.80	7.78	NA	NA	5.86

Annual Interval IV - I..					
IDFC Equity Fund - Plan A - Growth	-8.46	-6.53	NA	6.37	7.20
IDBI Ultra Short Term Fund - Growth	0.78	NA	NA	NA	8.56
Peerless Income Plus Fund - Growth	-0.20	4.45	NA	NA	4.90
Birla Sun Life Govt Securities Fund - Short Term Debt -..	0.59	5.73	4.89	5.21	5.85
ING Latin America Equity Fund - Growth	-6.97	-5.52	1.53	NA	-0.39
UTI Pharma and Healthcare Fund - Growth	-6.93	10.47	17.68	13.03	12.72
Franklin FMCG Fund - Growth	-3.73	12.30	24.67	15.88	17.28

Source: appuonline.com

According to a report published by "Standard and Poor" in Sept 06, 2011 that more than 60% of large cap schemes of Indian MFs have failed to perform in connection with benchmark index and are producing low returns. Even the 53% of diversified equity funds have been underperformer. All these have been happening for the last 5 years.

Table-2 shows the percentage of funds outperformed by their relative benchmark index has been given by S&P (details on the Standard & Poor's Index Versus Active Funds (SPIVA) scorecard are available in **www.spiva.standardandpoors.com and www.crisil.com**). (Report published in 2011).

When the BSE Sensex surpassed 20,000 points in 2010, Indian MFs cut a very sorry figure, the reason for which was not clear at all.

Table 2

Source: **www.spiva.standardandpoors.com and www.crisil.com**

There are reports that some fund managers connive with company promoters, and market operators rig and do circular trading. Front running is an illegal activity whereby a fund manager or fund official makes personal gains by making trades on his account before doing a trade for the fund. This causes losses for the fund investor and is akin to stealing. Such crimes were noted by SEBI.

Some MF companies were at one time under the scanner of SEBI and reputed fund houses like HDFC and L&T were fined for insider trading and other illegal activities. This has also dampened the confidence of the public.

These were the stories of first decade of this new millennium. In nineties the mutual funds faced

% of funds outperformed by the benchmark index

Fund category	**Benchmark index**	**1-year**	**3-year**	**5-year**
Large Cap	S&P CNX NIFTY	60.61	60.00	65.00
Diversified	S&P CNX 500 EQUITY INDEX	53.62	51.28	55.71
ELSS	S&P CNX 500 EQUITY INDEX	37.84	56.67	65.38
Balanced	CRISIL BalanCEX	60.00	51.61	50.00
MIP	CRISIL MIPEX	49.06	46.94	44.68
Gilt	CRISIL Gilt Index	41.18	64.52	53.13

debacle in many schemes. **I**n nineties SEBI conducted a review of performances of a few MF schemes which offered assured return. Dhanvarsha 4 and 5 of LICI failed to provide assured returns and LICI had to cough up of Rs190 Crores as loss to protect unit holders. Ind Jyothi of Indian bank was unable to pay assured returns to unit holders for the year 1996-97 and 1997-98 due to inadequacy of distributable profits. As per SEBI instruction the Indian Bank had to compensate the unit holders. Similar incidents occurred for also Punjab National Bank when PNB Mutual Fund failed to provide assured returns to unit holders.

To protect the interest of the MF investors, it may be suggested that MF companies holding more than 15% of underperformer or low yielding (return is less than bank FD interest) schemes should not be allowed to undertake fresh invitation from public to invest in their schemes till their performance are improved to the desired level.

Hidden costs and lack of transparency is deterrent to MF schemes:

Besides Mutual Funds have some disadvantages like hidden fees (management fee), sale charges, high capital gain distribution (MFs pay the dividend distribution tax as well as capital gains tax on a few types of schemes such as Debt Mutual Fund, Money Market Funds & Liquid Funds) etc. Transparency is an important factor in MF. Though proper legislation is there to get an idea of the investment mode of a MF company, but this is quite beyond the capacity of the ordinary investors and therefore the investors are deprived of getting the requisite information. It is quite difficult for an investor to get an idea of the investment pattern or what constitute the portfolio. Many a times an underperformer scheme is merged with a good one to save the investors. Now the question arises why a scheme becomes underperformer when professionally experienced managers are at the helm of affairs.

It has been found that many mutual fund schemes have been merged with other good schemes. Generally this kind of situation arises when the particular schemes fail to bring sufficient return for their investors. To offer reasonable return to the investors some good schemes are sacrificed. The number of mutual fund houses is increasing; with many foreign mutual funds setting up funds in India the industry has witnessed several mergers and acquisitions. Sometimes all the portfolios of a mutual fund are acquired by another mutual fund. ***All these do not send encouraging signals to the investors*****.**

At present most of the companies are providing reports on various aspects on-line. This requires investment on computers and broad band facilities on the one hand and knowledge of operation of computers on the other hand. This is a big barrier for ordinary retail investors. Previously a quarterly report on portfolio of each scheme used to be sent to investors to enable them to get an idea of their portfolio but such practices now have been discontinued.

Efforts should be made on behalf of the MFs to inform the investors about the scripts in which investments have been made, the average value of each script-this will help the investors to know at least roughly when the majority of shares of any script has been purchased, how much idle fund is lying, average monthly redemptions and average monthly inflows in case of open ended scheme. Investors should also be informed why underperforming is happening in the event of rise of index. If any imminent danger is foreseen MFs should take appropriate decision and dispose of the majority of the holding to the benefit of the investors i.e. the NAV should not be allowed to go down drastically with the fall of index. Atleast FIIs should not be allowed to rule the market.

Scope of Mutual Funds in the capital market segment

At one time generally during the period of nineteen sixties, seventies and eighties the Indian capital market was virtually ruled by UTI. With the beginning of economic reforms in nineties the controlling power has been shifted gradually from the hand of UTI to private players. In other words the Govt. control was replaced by private institutions specially Foreign Institutional Investors (FIIs).

In spite of huge corpus under the possession of Mutual Funds the stock market now-a-days is virtually under the control of FIIs. This fact has been noticed time and again in Indian perspective. [As on May 31, 2011, the total assets under management of the MMMFs (Money Market Mutual Funds) were placed at Rs.1, 83,622 crores, 25 per cent of the aggregate assets under management of the Mutual Funds ... Address by Dr Subir Gokarn, Deputy Governor of the Reserve Bank of India, at the CII (Confederation of Indian Industry) 7th Edition of Mutual Fund Summit 2011, Mumbai, 22 June 2011].

A comparative view of the activities of FII and Mutual Fund has been shown in Table-3.

From June 2009 to December 2010 the BSE Sensex rose from 14,493 to 20,509. A close look will reveal that during this time the MFs sold shares practically continuously but the FIIs were net buyers during this period. The extent of buying by FIIs was much more than the selling figure of MFs. The result was gradual increase of sensex. The behavior of MFs was quite confusing. Was it that the investors were seeking redemption? This answer is difficult to get. During this time most MF schemes were underperformer.

Table - 3

Year	Net Purchase of FII (Rs in Crore)	Net Purchase of Mutual Fund (Rs in Crore)	Average BSE Sensex
December 2010	2050	1377	20509.09
November 2010	18293	-101	19,521.25
October 2010	28563	-5801	20,032.34
September 2010	24978	-7326	20,069.12
August 2010	11687	-3169	17,971.12
July 2010	16617	-4405	17,868.29
June 2010	10508	-1107	17,700.90
May 2010	- 9436	98	16,944.63
April 2010	9361	-1410	17,558.71
March 2010	19927	-4082	17,527.77

Feb 2010	**1216**	**-696**	**16,429.55**
Jan 2010	**-762**	**-1340**	**16,357.96**
December 2009	**12213**	**-1765**	**17,464.81**
Nov 2009	**5497**	**-695**	**16,926.22**
October 2009	**9077**	**-5194**	**15,896.28**
September 2009	**13138**	**-2334**	**17,126.84**
August 2009	**4902**	**570**	**15,666.64**
July 2009	**10664**	**1820**	**15,670.31**
June 2009	**3830**	**839**	**14,493.84**

Source: www.indiabulls.com

Again from November 2007 to March 2009 the FIIs continuously sold shares approximately to the extent of 10 billion dollars and the market fell to below 8000. The buying by MFs/DIIs could not resist the fall. The extent of buying by the DIIs (which includes MF mainly) was numerically low but not poor at all. Here again the question revolves our mind that whether the idle fund at the hands of MFs was adequate enough or not? Or there were apathy on the part of MFs to act properly to stem the rot. This is a very sensitive and debatable issue. It is to be accepted that at present there is very feeble attraction for MF schemes on the part of the investors. Mega issues of mutual funds are almost things of the past.

(Rs in crore)

	FII			**DII**		
	Purchase	**Sale**	**Net investment**	**Purchase**	**Sale**	**Net Investment**
April-2009	**38,871.53**	**33,311.43**	**5,560.10**	**17,871.64**	**8,653.97**	**-782.33**
March-2009	**31,646.90**	**32,330.47**	**-683.57**	**19,256.22**	**5,304.69**	**3,951.53**
February-2009	**22,066.26**	**24,899.69**	**-2,833.43**	**13,438.92**	**0,664.36**	**2,774.56**
January-2009	**28,447.81**	**33,620.63**	**-5,172.82**	**18,644.12**	**4,925.98**	**3,718.14**
December-2008	**29,362.68**	**28,327.87**	**1,034.81**	**16,472.77**	**4,566.49**	**1,906.28**
November-2008	**28,093.92**	**33,552.88**	**-5,458.96**	**15,196.15**	**2,322.00**	**2,874.15**

October-2008	48,413.60	64,067.10	-15,653.50	26,254.38	5,458.08	10,796.30
September-2008	65,932.27	78,435.01	-12,502.74	25,415.62	6,202.66	9,212.96
August-2008	44,460.52	49,916.64	-5,456.12	17,813.52	4,841.14	2,972.38
July-2008	62,050.69	66,654.69	-4,604.00	23,217.26	1,690.07	1,527.19
June-2008	60,693.06	73,360.22	-12,667.16	23,754.33	5,126.36	8,627.97
May-2008	58,982.92	65,678.51	-6,695.59	26,254.47	7,976.44	8,278.03
April-2008	59,546.97	62,083.85	-2,536.88	21,678.24	8,277.26	3,400.98
March-2008	68,472.59	72,236.39	-3,763.80	23,606.43	0,658.92	2,947.51
February-2008	64,267.47	68,318.59	-4,051.12	24,064.99	0,056.65	4,008.34
January-2008	97,579.50	127,027.01	-29,447.51	44,638.58	8,223.89	16,414.69
December-2007	71,453.70	78,273.50	-6,819.80	29,495.28	4,543.14	4,952.14
November-2007	83,268.52	96,957.78	-13,689.26	31,937.20	3,383.79	8,553.41
October-2007	122,384.57	114,368.33	8,016.24	34,703.35	6,055.53	-1,352.18
September-2007	67,664.52	51,306.56	16,357.96	21,424.73	6,188.40	-4,763.67
August-2007	52,479.43	64,817.90	-12,338.47	26,496.41	7,347.14	9,149.27
July-2007	69,757.41	61,888.56	7,868.85	23,643.81	4,231.23	-587.42
June-2007	45,673.87	47,035.12	-1,361.25	19,374.66	4,814.40	4,560.26
May-2007	46,316.28	46,436.25	-119.97	21,959.33	8,974.43	2,957.10

Source: www.indiabulls.com

In the light of the above data it can be concluded that it is the right time that our MFs should play a dominant role in the capital market rather than being sleeping watch dogs. **It is to be remembered that corpus of MFs is quite large and comparable with FIIs**. Had they acted aggressively in 2008-2009 our capital market might not have suffered so much. Again they can play a crucial role in resisting too much volatility in the capital market and restore investors' confidence.

Roles expected from Mutual Funds

The reforms have opened the door wide open to innumerable factors which can develop profound impact on the sentiment of our capital market and in fact such things are happening practically every day and our MFs are now being subjected to vulnerability of world economic turmoil. At one time, especially in eighties and in early nineties investors turned to Unit Trust for financial gain and they were suitably rewarded every year. The history of Unit 64 is an example. But such expectation has been belied now. Except for a few MF schemes the majority of them disappoint investors. At one time Indian market and MFs were controlled by Unit Trust and other Govt. controlled financial institutions and **socialistic behavior** was noticed in their action, but now there has been a major change in attitude due to dominance of private players, both national and international.

However, all the Mutual Funds operating in India clearly have a significant role to play in financial and economic development of the country. As they have the expert talent pool in their possession they can very well judge the national and the international economic affairs and the prospects of various national companies as well. Based on different risk-return investment opportunities, MF deploy the fund they collect from the large number of small and medium retail investors and can ensure a steady return for them. With the help of huge corpus as well as professionally qualified and highly experienced fund managers at the helm of affairs, they can play a dominant role in stabilizing the capital market rather than being a mute spectator. They can act as savior of capital market especially in case of economic doldrums. In short, Mutual funds have still immense prospect in India in view of the vastness of its population and growing income pattern.

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