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An Evaluation of Risk-Adjusted Performance and Implicit Risk Preference of Selected Mutual Fund Schemes in India

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Abstract

Mutual funds industry is growing at a phenomenal rate as it is spreading equity culture and transform Indian Capital Market. Hence, it becomes pertinent to study the evaluation of mutual funds on regular basis which would be beneficial for the investors. The study aims at analyzing the performance of selected mutual fund schemes during the five years period from 2011-15. For this purpose, Daily NAVs of mutual fund schemes chosen for the study have been used and compared with bench mark indices viz. sensex and NSE Nifty. The researcher has set two objectives for the current study: 1)To evaluate the risk-adjusted performance and 2) to evaluate the implicit risk preference of the selected mutual fund schemes using Sharpe, Treynor and Jensen Alpha Measures. The research paper concluded that the majority of the schemes have shown superior risk adjusted performance in all the measures. Hence, the small investors are advised to analyze the return and risk parameters of the mutual funds before their investment decisions.

I. Introduction

MUTUAL FUND IS an investment vehicle preferred by small investors as it offers an opportunity to invest in a diversified, professionally managed portfolio at a relatively low cost. The investors buy units of a particular mutual fund scheme that has a defined investment objective and strategy. The money thus collected is then invested by the fund managers in different types of securities. These could range from shares to debentures to money market instruments, depending upon the scheme's stated objectives. The income earned through these investments and the capital appreciation realized by the scheme is shared by its units in proportion to the number of units owned by them. With the increase in domestic savings and improvement in deployment of investment through markets, the need and scope for mutual fund operation has increased tremendously. Mutual funds

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4.4 *Jensen Alpha and Efficient Market Hypothesis*

Out of eighty, sixty schemes (i.e. 75%) are found to be having positive alpha value, which implies that the market is inefficient. When the market is inefficient, the fund managers are able to earn superior returns on the funds. Further only sixteen schemes (i.e. 20%) are found to be having negative alpha which indicates that the fund managers are not able to earn superior returns than the market returns.

V. Scope for Further Research

The present study is conducted to analyze the returns of the above scheme and tested the risk adjusted return by employing Sharpe, Treynor and Jensen measures during the period 2011 to 2015 and the researcher feels that the study with similar objectives could be made from time to time and may be extended to Sortino ratio. The Sharpe ratio takes equal account of both upside and down side volatility. The sortino ratio applies downside semi variance in the denominator. A large value of sortino points to the low risk of significant losses occurring. The use of such measure helps the investor to calibrate his risk preferences in terms of a high versus low level of risk aversion and select the most appropriate classification. Further, the study can be conducted using other models like Fama decomposition of total return.

VI. Conclusion

It is concluded that the results shown under all the measures are more or less the same. Majority of the schemes have shown superior risk adjusted performance in all the measures. It is 71.25% of the schemes under Sharpe and Treynor ratio, whereas 80% schemes under Jensen measure. The overall results indicate that the funds have better performance than the market.

Hence, the small investors are advised to analyze the return and risk parameters of the mutual funds before their investment decisions. Although mutual funds are instruments of diversified investments, a prudent choice has to be made from the available mutual fund schemes which will go a long way in generating wealth for the investors. Further, in times of high stock market volatility, mutual funds are the best source of investments with assured and adequate returns provided the selection of the mutual funds is in the right direction.

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