

# INVESTMENT ANALYSIS WITH RESPECT TO MIDCAP FUNDS

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## ABSTRACT

Mutual funds are among the hottest favourites with all types of investors. Investing in mutual funds ranks among one of the preferred ways of creating wealth over the long term. In fact mutual funds represent the hands-off approach to enter the equity market. There are wide variety of mutual funds that are viable investment avenues to meet a wide variety of financial goals. The investors must be familiar with not only those industries in which they invest, but also those in which they do not invest, since they might, in the future, offer attractive outlets for funds.

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### 1.0 Introduction :

Investment is the sacrifice of certain present value for the uncertain future reward. It entails arriving at numerous decisions such as type, mix, amount, timing, grade etc. of investment and disinvestments. Further, such decision-making has not only to be continuous but rational too. Broadly speaking, an investment decision is a trade off between risk and return. All investment choices are made at points of time in accordance with the personal investment ends and in contemplation of an uncertain future.

Financial institutions receive daily requests for guidance from a wide range of potential savers and investors. These include:

- a) Those who receive a relatively large sum of money by way of redundancy or early retirement pension;
- b) Those who inherit large sums of money and other assets.

- c) Those who win large sums of money from the National Lottery or Premium Savings Bonds;
- d) Smaller investors who have purchased shares issued by former public corporations as part of the government's privatization programme or from an Employee Share Option scheme;

Mutual fund is a concept of mutual help of subscribers for portfolio investment and management of these investments by experts in the field. Mutual fund investment decisions require consistent effort on the part of the investor. To invest in mutual fund the aspects like identifying the investment objective, selecting the right scheme category, selecting the right mutual fund and evaluating the portfolio must be given due weightage to decide on the right type of scheme.

By keeping these points in mind, the researcher has chosen the Midcap Fund of 3 selected mutual fund companies, which offer benefits to the investors. They are Birla Midcap fund, DBS Chola Midcap fund & Sahara Midcap fund.

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### 1.1 Need for the study:

Mid-cap funds are very volatile and are susceptible to varying price fluctuations. When the market rises, they rise faster than the large-caps. If the markets fall, they are likely to take a deeper blow than the large-caps. All the midcap funds have got similar features with respect to investment objective, investment horizon and load structure. The purpose of this research was to analyse the funds performance by using various performance measures, NAV and Returns.

### 1.2 Statement of the problem:

The management of an investment portfolio requires knowledge, experience, constant research, appraisal and reappraisal of securities market, sectors within the market and individual securities. One has to keep trace of the trends in the national economy and the competitive position of different industries. The investors must be familiar with, not only those industries in which they invest, but also those in which they do not invest, since they might, in the future, offer attractive outlets for funds. To be successful one requires to combine the skills of a professional analyst with those of a portfolio manager. Not many investors possess the training and experience to carry out an investment programme. Hence arises the management problem and it is in answer to this problem of managing investment portfolios that investment companies have come up.

The present study on the investment analysis with respect to midcap funds will bring to limelight the level of interest and preferences of investors towards midcap funds. Besides, the study is elaborated to identify the relationship between fund return and market return of midcap funds.

### 1.3 Objectives of the study:

The study is undertaken with the objectives given below.

- i) To assess and compare the risk and return characteristics of the mid-cap funds.

- ii) To study the manner of growth of midcap fund and the status of midcap fund.
- iii) To identify the predominant factors, which influence the individual investors' investment pattern.
- iv) To offer suggestions and recommendations for better investment to investors.

### 2. Review of literature:

Sandip Sabharwal (2006) CIO of JM Financial AMC stated that, "Midcaps will outperform large caps by a margin of 25-30 per cent over the next two years and as such provide strong investment opportunities." There seems to be a large gap in the valuations of small caps, midcaps and large-caps and hence it is an opportunity for investors to accumulate this at cheaper valuations.

Nilanjan Dey (2007) noted that, mid-cap funds are trying to claw their way back after a spell of relative inactivity, spurred by the view that the market is consolidating and valuations are again turning attractive. Some of them are aiming to utilise the large cash positions they have been sitting on for some time. Fund houses, which suggest that a range of mid-cap stocks is currently available at compelling prices, say that a number of these are worth investing in at the moment. As a result, fund managers are preparing for fresh allocations in the mid-cap space. The segment has been in the news lately, mainly due to the volatility that has been evident there.

Navneet Munot (2007) points out that the recent escalation in PE-related activity is a boon of sorts for the asset management industry. The latter has spawned a number of small- and mid-cap funds in recent days and more are probably in the offing. A number of deals have already gone through, some of them brought about by well-known PE funds. A section of the companies concerned are bound to come to the market before long. Mid-cap funds are often constrained by several factors, say those in

investment circles. Liquidity of the stocks they are supposed to target becomes a major issue. Some of these stocks are also said to be under-researched.

Amitabh Chakraborty (2007) observed that, "There are many good quality midcaps going at a single digit price earning ratio. Wherever the investor is confident of the management, they should buy the stock."

### 3.0. Methodology :

The researcher has adopted casual research which identifies the cause and effect relationship between variables. These variables have been studied over a period of time to understand the interrelationship between these variables, which could help the investors to take timely decisions.

### 3.1 Data Collection:

This research is purely depending on the secondary data sources. The researcher has used 36 subsequent months fund fact sheets (Apr-06 to Mar-09).

### 3.3 Statistical tools used for Data Analysis:

- Mean
- Standard Deviation
- Correlation Coefficient
- Coefficient of Variation
- Testing of hypothesis (Correlation between Fund Return and the Market Return)

### 4. Analysis & Discussions:

#### 4.1 Risk analysis and relationship with the market:

Sl. No.	Mutual Fund	Coefficient of Correlation	Standard Deviation	Coefficient of Variation
01	DBS Chola midcap fund	0.203	6.7	25.73%
02	Birla midcap fund	0.067	7.96	26.67%
03	Sahara midcap fund	0.134	4.66	24.70%

Source: Secondary Data

It is evident from the above table by considering coefficient of variation, Sahara madcap fund is the best, and then followed by DBS chola midcap fund, Birla midcap fund.

Karl Pearson's coefficient of correlation establishes the relationship between two variables i.e. fund return and market return. The table has brought to light that all the midcap funds have low degree of positive correlation with the market return.

#### 4.2) Test for NAV Randomness:

Assumptions have been made to test whether daily NAV's of midcap are not random and daily NAV's of midcap are random. The test has been carried out at 5% level of significance.

Sl. No.	Fund	T-CAL	T-TAB	Decision
1	DBS Chola Midcap Fund	13.57	1.96	H0 Rejected
2	Birla Midcap Fund	13.61	1.96	H0 Rejected
3	Sahara Midcap Fund	13.61	1.96	H0 Rejected

Source: Secondary Data

It is prudent from the table that the calculated value is more than the table value for all funds, hence the researcher rejects the null hypothesis at 5% level of significance. The researcher concludes that the funds NAV are not random. This contradicts the efficient market hypothesis, thus the NAV moves in tandem with the market fluctuations.

#### 4.3) Testing the significance of correlation coefficient:

Assumptions have been made to test whether there is no correlation between fund return and market return or there is a positive correlation between fund return and market return. The test has been carried out at 5% level of significance.

S. No.	Fund	T-CAL	T-TAB	Decision
1	DBS Chola Midcap Fund	5.638	1.96	H0 Rejected
2	Birla Midcap Fund	1.827	1.96	H0 Accepted
3	Sahara Midcap Fund	3.67	1.96	H0 Rejected

Source: Secondary Data

It is evident from the table that the calculated value is more than the table value for DBS Chola Midcap fund and Sahara Midcap Fund, hence the researcher rejects the null hypothesis at 5% level of significance. The researcher concludes that there is a significant correlation between fund return and market return.

It is prudent that the calculated value is less than the table value for Birla Midcap Fund, hence the researcher accepts the null hypothesis at 5% level of significance. The researcher concludes that there is no significant correlation between fund return and market return.

### 5 Recommendations:

The return on equity investments in the capital market particularly if proper investment strategy is adopted would satisfy the above objectives and the real returns would be higher than any other saving instruments. Based on the study, the following suggestions are made:

- ☛ Do not chase returns. Because what goes up must come down.
- ☛ Do not put all eggs in one basket. Diversification reduces the risk.
- ☛ Do not stop working on mutual funds. Continuous evaluation of funds is a must.
- ☛ Past performance may or may not be sustained in the future.
- ☛ Do not time the market. Every time is good for investments.
- ☛ NAV's fluctuate depending on forces affecting the capital market.
- ☛ Do not speculate. Always evaluate risk-taking capacity.

Investors do invest their resources for long-term capital appreciation. With respect to various analysis made above the investor can invest in the following order.

First preference – Sahara midcap fund

Second preference – DBS Chola midcap fund

Third preference – Birla midcap fund.

### 6. CONCLUSION:

Mutual fund market has now grown into a great material market with a lot of qualitative inputs and emphasis on investor protection and disclosure norms. Investors dealing in stock market invest their money mostly in primary and secondary market securities. Investors deal in stock market regularly and are very much aware of the market conditions. For information they depend on stockbrokers, analysts, newspapers etc. They purchase shares for both longterms and short term purposes. Investors invest their money in different types of portfolio. It was noted that investors deal in stock market for getting capital appreciation as well as for getting dividends also. Investors are also aware of the investment climate economic conditions and political environment that influence the stock market very much. To conclude the secret to wealth has always been to buy when there's blood running in the street and sell when every one is pounding at your door, clawing to own your equities.

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