Small investors face a lot of problems in the share market. These problems may be related to limited resources; or lack of professional advice; or lack of information etc. Mutual funds have come forward as a much needed help to these investors. It is a special type of institutional device or an investment vehicle through which the investors pool their savings which are to be invested under the guidance of a team of experts in wide variety of portfolios of corporate securities in such a way, so as to minimize risk, while ensuring safety and steady return on investment. It forms an important part of the capital market, providing the benefits of a diversified portfolio and expert fund management to a large number, particularly small investors. Thus, Mutual funds are becoming a very popular form of investment characterized by many advantages that they share with other forms of investments and what they possess uniquely themselves. The primary objectives of an investment proposal would fit into one or combination of the two broad categories i.e. Income and Capital gains. But Mutual Funds Industry has to deal with the several problems too. There are two types of the problems faced by Mutual Funds Industry:
A. PROBLEMS IN OPERATION OF MUTUAL FUNDS:

Mutual Funds industry has to face a number of problems while operating its mutual funds. These problems are related to lack of interest and confidence of investors, inefficiency in mutual funds management, imbalanced investment of available funds, avoidance of small companies, no distinction between trustees and fund managers, existence of competition, no publication of accounts, speculators activities, poor services to investors, lack of transparency, give rise the fear of destabilizing, poor savings, government rules and regulations, shortage of investment professionals, and heavy commission to agents etc. The detailed study of these factors is being given below:

- LACK OF INTEREST AND CONFIDENCE OF INVESTORS:

At present, the investors in India prefer to invest in mutual funds as a substitute of fixed deposits in Banks. About 75 percent of the investors are not willing to invest in mutual funds unless there was a promise of a minimum return. They hesitate to invest in mutual funds because there are many disadvantages of mutual funds to investors. These are:

- NO CONTROL OVER COST:

The AMC who manages the operational aspect of the mutual funds and the costs are incurred by them. The investors do not
control the costs in spite of the fact that they are the one who bear such costs, including the distribution cost of a mutual funds scheme.

- **NO TAILOR-MADE PORTFOLIOS:**

  In a mutual fund scheme, an investor’s money is invested by AMC. The AMC decides the products and securities in which the investor’s money will be invested. AMC will build the portfolio, which will be common for all the investors of a scheme. The investor can build a portfolio of his choice in direct investing which is not possible in a mutual fund.

- **CHOICE OVERLOAD:**

  Over 800 mutual funds schemes offered by 38 mutual funds and multiple options within those schemes make it difficult for investors to choose from them. Greater dissemination of industry information through various media and availability of professional advisors in the market should help investors to handle this overload.

- **INEFFICIENCY IN MUTUAL FUND MANAGEMENT:**

  Sponsorship of mutual funds has a bearing on the integrity and efficiency of fund management which are the key to establishing investor's confidence. So far, only public sector sponsorship or ownership of mutual funds organizations had taken care of this need. Sometimes sponsors of the AMC forget the scheme objectives for their profits resulting that the investors get losses. So investors do not
believe in mutual funds companies and avoid investing in mutual funds.

- **AVOIDANCE OF SMALL COMPANIES:**

  Many small companies are doing very well and earning adequate profits but mutual funds can not reap their benefits because they are not allowed to invest in smaller companies. Not only this, a mutual fund is allowed to hold only a fixed maximum percentage of shares in a particular industry. Due to such policy of Mutual Funds Industry the investors are deprived from the profits which can be earned by investing the funds in these small scale companies.

- **NO DISTINCTION BETWEEN TRUSTEES AND FUND MANAGERS:**

  The mutual fund in India is formed as trusts. As there is no distinction made among sponsors, trustees and fund managers, the trustees play the role of fund managers. Whereby, fund managers are not in a position to work independently. They have to work in pressure which creates a big problem to protect the interest of the small investors. So it becomes necessary to regulate frame work for a clear demarcation between the role of constituents, such as shelter, trustee and fund manager to protect the interest of the small investors.
• **EXISTENCE OF COMPETITION:**

The increase in the number of mutual funds and various schemes has increased dire competition among them. Hence it has been remarked by Senior Brokers “mutual funds are too busy trying to race against each other”. As a result they lose their stabilizing factor in the market.

• **NO PUBLICATION OF ACCOUNTS:**

AMC does not publish its Profit & Loss a/c and Balance Sheet; it publishes only scheme’s Profit & Loss a/c and Balance Sheet. Because of this, investor does not get knowledge of about AMC’s expenses and incomes. While scheme’s expenses are borne by investor, so he has a right to know how much expenses AMC does and how much incomes AMC earns.

• **SPECULATORS ACTIVITIES:**

The mutual funds have eroded the financial clout of institution in the stock market for which cross transaction between mutual funds and financial institutions are not only allowing speculators to manipulate price but also providing cash leading to the distortion of balanced growth of market. Sometimes fund managers invest the investors’ money in high beta share companies. They take the higher risk for the higher return and do speculators activities.
• **POOR SERVICES TO INVESTORS:**

As the mutual fund’s standard of efficiency is very poor as regards to investors’ services; such as dispatch of certificates, repurchase and attending to inquiries; it leads to the deterioration of investors’ interest towards mutual funds.

Out of 38 AMCs, only 11 AMCs opened their branches in district Meerut which create a big problem for investors to invest their money in other AMCs.

In district Meerut, redemption procedure of investors’ investments is completed within 8-10 days; while in the other cities it has been completed within 2-3 days.

Except above problems, a big problem which is suffered by the investors to invest their money is that the collection centres of all AMCs are not opened in district Meerut.

• **LACK OF TRANSPARENCY:**

Transparency is another area in mutual funds which is generally neglected by AMCs. Investors have right to know and asset management companies have an obligation to inform where and how his money has been deployed. But investors are deprived of getting the information.
• GIVE RISE THE FEAR OF DESTABILIZING:

The growth of mutual funds tends to increase the shareholdings in good companies, which raise the fear of destabilizing among industrial groups. The introduction of non-voting shares and lowering the debt-equity ratio help to remove these apprehension.

• POOR SAVINGS:

One of the foremost problems faced by Mutual Funds Industry is poor savings. At present, expenses of a common man have been increasing while his income is not increasing in that ratio. Due to this reason, his total income is finished in his household expenses and he finds himself unable to save any money for investment in mutual funds.

• GOVERNMENT RULES AND REGULATIONS:

Each mutual fund is to have an assets management company which is to be registered with SEBI after fulfilling the prescribed and detailed formalities specified in regulations. Specific restrictions have been laid down on the business activities of the AMCs. Their obligations have also been spelled out in their Investment Management Agreements. Every scheme which is to be launched by mutual fund has to be floated by its AMC. The mutual fund sector operates under stricter regulations as compared to most other investment avenues. Some common government rules and
regulations which create problems for mutual funds industry are as follows:

- **STRICTER REQUIREMENTS:**

  The mutual fund sector operates under stricter requirements regarding KYC requirements, PAN requirements and Bank details etc. Due to all above requirements investors face problems in investing their money in mutual funds. So Mutual Funds Industry is affected by this problem.

- **LISTING REQUIREMENTS:**

  SEBI regulations require that “an application for listing of units of close ended scheme shall be made to the stock exchange immediately on receipt of the approval for the scheme from the board”. SEBI introduced this provision with the sole objective of providing exit route by creating liquidity for mutual funds schemes which are common man’s investment avenue. Mutual funds feel that such a condition put unnecessary pressure on mutual funds and create tension for investor, since as a result of this condition normally market quotation of the scheme is below NAV of the scheme. The assets of the fund would always be less than the face value at the inception due to upfront issue expenses incurred. Moreover, the permissible time of 6 months for completing investment process also comes in conflict of the said provisions. Until the investment is complete, listing of scheme will be of interest
to speculators only. Further, if this practice continues and units of schemes are available at below par in the market, there will be tendency on part of investors to buy the units in the market after listing of the scheme instead of subscribing to the issue. This may lead to another problem i.e. under-subscribing of the schemes. Thus, it is desired that SEBI should make listing requirements more flexible.

- **NO PENAL PROVISIONS:**

  The existing regulations lay down many measures to protect mutual funds investors and to make the operations of the mutual funds more transparent, however no penal provisions are provided against officers, employees, key personnel or directors of an AMC or trustees of a mutual fund who are found to be guilty of violating the provisions. In the absence of initiation of action against such erring persons who indulge in fraudulent and unfair practices create problems for the investors because their interests cannot be said to be safeguard due to their fraudulent and unfair activities.

- **PENALTIES FOR CAPITAL MARKET OFFENCES:**

  The penalties for capital market offences are a maximum of a fine of only Rs.5 lac irrespective of the magnitude of the offence. Thus, there is not an enough deterrent on the market players who can make crores by manipulating the stock market norms or the law as such a fine is a mere pittance. Apart from the need to logically
raising the penalties in monetary terms and linking those with the magnitude of economic offences there should also be a provision for a prison term.

- **SHORTAGE OF INVESTMENT PROFESSIONALS:**

  The money pooled in the mutual funds is managed by professionals who decide investment strategy on behalf of the unit holders. Because of the relatively large pool of investable funds, mutual funds have the resources to hire fully qualified, full time investment managers. These professionals choose investments that best match the investment objective of the scheme as described in the scheme’s prospectus. Their investment decisions are based on extensive research of the market conditions and financial performance of the individual company and specific security. But there is a big shortage of investment professionals in mutual funds market which creates a big problem for mutual funds industry.

- **HEAVY COMMISSION TO AGENTS:**

  The mutual funds distributors get heavy commission for their services. This commission cost is borne by the AMC and the investors which increases the cost of investment. Due to this heavy cost of commission, investors lose a handsome part of their invested money.
• INCREASING COMPETITION:

However, while mutual funds have experienced unprecedented growth, many competitors today are aggressively questioning the benefits of mutual fund ownership and are trying to lure fund investors with new products. On-line brokerage ads promise fabulous riches. On-line trading has made it cheaper and easier for individual investors to buy their own stocks. While funds have benefited from the bull market, such a market also tempts some investors to try picking their own stocks even when they don't have the expertise to do so.

Broker-dealers increasingly are offering brokerage accounts with asset-based fees or use other alternative pricing structures, and are developing products that compete with, and are alternatives to, mutual funds. These asset-based pricing structures now are highly competitive with the costs of mutual funds.

B. PROBLEMS IN PORTFOLIO MANAGEMENT:

To translate the conceptual portfolio management framework into reality, the funds manager of a mutual fund has to deal with the problems associated with the nature of the markets he is dealing in and the characteristics of the securities he is investing in. These problems may be discussed as below:
• SUITABLE INVESTMENT AVENUES:

One of the foremost problems faced by fund managers of mutual fund is that of finding suitable financial instruments in which to invest so as to meet the varied investment objectives of different classes of investors. For example, it may be difficult to identify instruments with the preferred maturity / preferred degree of liquidity / preferred risk-return characteristics / preferred asset class or a desirable combination of these.

• LIQUIDITY:

To maintain optimum portfolio, a fund manager should be able to both invest and disinvest in the securities of his choice at the time that he chooses to invest / disinvest. This is possible only if there are large numbers of traders in the market who are willing to buy and sell. Entire range of financial instruments should be available in the market. In other words, liquidity can be ensured only if there are sufficient number of ‘market-makers’ for each type / class of financial instrument.

• FLEXIBILITY:

To allocate investible resources at his command among various options available to him, the fund manager may be constrained by the guidelines / stipulations of various regulatory bodies overseeing the functioning of the financial markets. For example, there may be
barriers to entry into certain segments of the market; there may be limits in the level of holdings of money market securities in general or specific. Therefore, in practice, the fund manager may find it difficult to invest in the theoretically optimum portfolio. He at the most can attempt to be close to optimum portfolio.

- **MARKET INEFFICIENCIES:**

  Fund managers having professional outlook base their investment decisions on analysis of reliable information. However, the quality of their evaluation of securities may not be desirable due to lack of proper and timely information, formation of cartels by a few big players, wrong-pricing of securities due to actions to ill-informed investors, etc.

**CHALLENGES FACING MUTUAL FUNDS**

There are many Challenges Facing Mutual Funds which is of prime concern to the people who have an investment spree. People find mutual funds investment so much interesting because they think they can gain high rate of return by diversifying their investment and risk. But, in reality this scope of high rate of returns is just one side of the coin. On the other side, there is the harsh reality of highly Fluctuating Rate of Returns. Though there are other disadvantages also, this concern of fluctuating returns is most possibly the greatest challenge faced by the mutual funds:
• THE ISSUE OF FLUCTUATING RETURNS:

In spite of being a diversified investment solution, mutual funds investment in no way guarantees any return. If the market prices of major shares and bonds fall, then the value of mutual funds shares are sure to go down, no matter how diversified the mutual funds portfolio be. It can be said that mutual funds investment is somewhat lower risky than Direct Investment in stocks. But, every time a person invests in mutual funds, he unavoidably carries the risk of losing money.

• DIVERSIFICATION OR OVER DIVERSIFICATION:

In order to diversify the investment, many times the mutual funds companies get involved in over diversification. The risk of holding a single financial security is removed by diversification. But, in case of over diversification, investors diversify so much that many time they end up with investing in funds that are highly related and thus the benefit of risk diversification is ruled out.

• TAXES:

Every year, most of the mutual funds sell substantial amount of their holdings. If they earn profit by this sell, then the investors receive the profit income. For most of the mutual funds, the investors are bound to pay taxes on these incomes, even if they reinvest the income.
• **COSTS:**

Most of the mutual funds charge Shareholder Fees and Fund Operating Fees from the investors. In the year, in which mutual funds fail to make profit and the investors get no return, these fees only blow up the losses.

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