

Gainers and the losers

Sebi move may have benefited the investors, but fund companies are suffering, writes **Priti Pandey**

SINCE last year, the stock market in the country has picked up and many companies are on the growth trajectory once again. But the big question is if the growth pattern of the mutual fund industry is in sync with investors' expectations. The last three years have been increasingly significant in the financial world where along with India, there have been radical shifts across the globe. In 2008 the economy's growth was manifested in hyper growth in the capital market and overwhelming investors sentiments observed in stock market. The asset management companies also touched new heights with the ever-growing investment fervour. Retail investors looking to cash in on the booming stock market were increasingly taking to the mutual fund route over the past few years. While this had, no doubt, fattened the bottomlines of asset management companies, it was mutual fund distributors who were actually laughing all the way to the bank.

Much against the spirit of free market where the forces of demand and supply command the economics, the intermediaries have played a crucial role in helping small investors plan their investment by leveraging their investment decisions in favour of schemes that promised bigger pie to them. Distributors selling MFs get a commission every time you put money in a new fund offer, invest in an existing scheme or even stay invested in a scheme that you invested before. With AMCs trying to outdo each other in terms of assets under management, distributors became a pampered lot.

The distributors held up on their own in the aftermath of global financial crisis that while the stock market saw a heavy loss in value of stocks leading to flight of funds from the market, mutual fund industry learnt to survive by aligning with its core objective - measured risk and assured returns. The recovery of stock market raised the AMCs' assets and they registered an increase of 30 per cent in the total value in second quarter of year 2009-10, as per data provided by the

Association of Mutual Funds of India (AMFI).

Just as we were hearing the stories of recovery from the global economic shock, keeping up with the proponents of free market, Sebi in its bid to reinforce the concept of 'consumer is the king'



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announced the ban on entry load for mutual funds with effect from August 1 last year. With the new ruling in place, investors are free to negotiate the commission with their distributor and if they are smart negotiators they may even pay nil commission on their investments. Consequently, distributors will get a fee for their advice and hence they will have to give the right advice rather than promoting schemes, which offer them superior brokerage. No more churning of the portfolio of the investors which many distributors used to indulge in especially when a New Fund Offer was announced to earn hefty commissions without any care for your money.

The Indian investment system

is believed to be greatly impressed by the decisions and opinions of the personal financial planners as there has been absence of industry-level effort to educate the investors. The gap is more pronounced with respect to mutual fund industry as against the insurance sector. Notwithstanding the opinions generated in favour of having the AMCs directly reaching out to the potential investors ever since the ban, the fund companies have been reported to be suffering from a steady depletion of cash in their equity schemes.

Between August 2009 and December 2009, when the Sensex was up 15 per cent, the mutual fund industry saw a massive outflow of Rs 7,315 crore. This is all the more galling for the fund industry, because mutual funds normally benefit from inflow of funds when the market is rising. According to the data provided by Amfi, in September 2009, five new schemes from fund houses mopped up Rs 826 crore while no new schemes were launched in October and December last year. As per the Amfi report released for the quarter April -June 2010, the total assets under management were at Rs 6,75,864 crore which was almost the same in the corresponding period for the previous year, but the redemptions of funds schemes worked as a dampener for the industry as it indicated 30 per cent increase from that of the previous year. To add to the woes, it is estimated that there are only 5.3 million investors in fund industry out of 190 million wage earners who save in some form or the other, and post the ruling, inflows have further dipped.

In the present scenario, the consumer is left to make his/her own decisions with little financial literacy. Let us hope that in spite of low investor confidence in the light of current changes, the financial service providers reinvent themselves to improve their credibility level among the potential and existing investors.

Long live the consumer at the altar of market efficiency.

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