COMPARATIVE ANALYSIS OF HDFC MUTUAL FUND EQUITY SCHEMES WITH VANGUARD MUTUAL FUND

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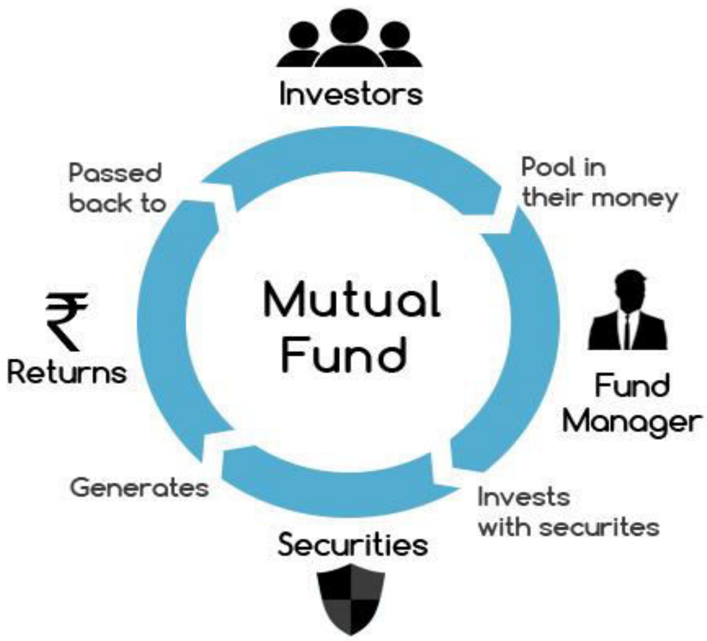
ABSTRACT

To many people, mutual fund is a complicated terminology. Talking about the basics of Mutual Funds, the money pooled in by a large number of people is what makes a Mutual Fund. Usually, these funds are managed by the professional managers. Mutual fund can be regarded as a trust that collects money from a number of investors who share a common investment objective. Then this trust invests money into variety of schemes, some of them can be in equities, bonds, money market instruments and or other securities. This study is a comparative analysis of the financial performance of HDFC Mutual Fund equity schemes with Vanguard Mutual Fund. Analyzing the financial performance and the stability of the funds has become essential now a days because of the increasing investment avenues and also it has become the greatest challenge in today's investment world.

Keywords: Mutual Fund, Investment, Financial Performance

INTRODUCTION

A mutual fund is a kind of investment that uses money from investors to invest in stocks, bonds or other types of investment. A fund manager (or "portfolio manager") decides how to invest the money, and for this he is paid a fee, which comes from the money in the fund. Mutual funds are usually "open ended", meaning that new investors can join into the fund at any time. When this happens, new units, which are like shares, are given to the new investors. There are thousands of different kinds of mutual funds, specializing in investing in different countries, different types of businesses, and different investment styles. On 6th October 2017 Securities of Exchange Board of India (SEBI) introduced new and broad categories in Mutual Funds in order to bring uniformity in similar schemes launched by the different Mutual Funds. This is to aim and ensure that investors can find it easier to compare the products and evaluate the different options available before investing in a scheme. SEBI intends to make Mutual Fund investment easier for the investors. Investors could invest according to their needs, financial goals and risk ability. This mandates Mutual Fund Houses to categorize all their schemes (existing & future scheme) into 5 broad categories. Let's see the new distinct categories introduced by SEBI in Equity Funds, Debt Funds, Hybrid Funds, Solution Oriented Funds and other schemes. Whereas, US based mutual funds fall into several main categories. Some are bond funds (also called fixed income funds), and some are stock funds (also called equity funds). There are also funds that invest in a combination of these categories, such as balanced funds and target date funds, and newer types of funds such as alternative funds, and smart-beta funds. In addition, there are money market funds, which are a specific type of mutual fund. Most mutual funds fall into one of seven main categories – Money market funds, Bond funds, Stock funds, Balanced funds, Target date funds, Alternate funds, and Smart-beta funds. Each type has different features, risks, and rewards.



Overview of Mutual Fund

STATEMENT OF THE PROBLEM

Investors' today look for stability and good returns. The quality now a days has become quite important when it comes to asset allocation in this modern aged investment world. The principles to look for allocation towards the bulk investment are:

1. Investment for Stability
2. Liquidity & Returns

The present study is an attempt to analyse the stability of the selected mutual funds which are operatable in India and US.

REVIEW OF LITERATURE

1. **Lee and Rahman (1990)** empirically examined market timings and selectivity performance of mutual funds by using simple regression technique to separate stock selection ability from market timing ability.

The inputs to the model were return earned on fund and those earned on market portfolio. The results indicated some evidence of micro and macro forecasting ability of fund managers.

2. **Barua et al. (1991)** made a pioneering plan to evaluate the performance of "Master Share" theme of UTI from the capitalist purpose of read. They used the CAPM and computed the danger of the Master Share theme for the amount 1987-1991. The risk-adjusted performance was measured victimization Sharpe, writer and Treynor ratios. The benchmark chosen was the 'Economic Times normal share value index'. The study all over that Master Share had performed higher in systematic risk, however not in terms of total risk.
3. **Batra and Bhatia (1992)** in their presentation, they appreciated the performance of various funds in terms of return and funds mobilized. UTI, LIC and SBI Mutual Funds are in the capital market for many years declaring dividends ranging from 11% to 16%. The performance of Canbank Mutual Fund, Indian Bank Mutual Fund and PNB Mutual Fund were highly commendable. The performance of many schemes was equally good compared to industrial securities.
4. **Bogle (1992)** in his paper made an effort to select the top twenty equity funds in two periods i.e. 1971-80 and 1981-90. The study showed that top fund's performance in one year had no systematic relationship to its ranking in the subsequent year. The study suggested the selection of better performers rather than top performer by using "Honor Rolls" which took into account their total return, their relative performance and the continuity of their portfolio management over at least seven years. The study also suggested that passive strategy was helpful for picking a winner as passive managers operated at far lower fees than active managers and because of lower portfolio turnover rates incurred lower transaction costs. The study recommended the use of Morningstar system for selecting the better performing funds and avoiding the worse performing. The study concluded that through thorough research and careful analysis one could choose winning fund easily.
5. **Shah and Thomas (1994)** studied the performance of 11 mutual fund schemes, on the basis of market price data. The weekly returns were computed for these schemes since their commencement to April 1994. Jensen and Sharpe measures were used to evaluate the performance of the schemes. They concluded that except UGS 2000 of the UTI, none of the schemes earned superior returns than the market, in general.
6. **Jayadev (1996)** in his study "Mutual Fund Performance: An Analysis of Monthly Returns" evaluated the performance of two growth oriented mutual funds (Master Gain and Magnum express) for a period of 21 months (June 1992 to March 1994). The Economic Times Ordinary Share Price Index' (ETOSHPI) was assumed as Benchmark. The study found that Master gain has performed better according to Jensen and

Treynor measures but on the basis of Sharpe's Ratio its performance was not up to the benchmark. The performance of Magnum Express was found poor on the basis of all the three measures. Magnum express was well diversified and had reduced its unique risk where as Master Gain did not. Both the funds were found poor and earning better returns either due to selecting under-priced securities or due to marketing. It was concluded that two growth-oriented funds didn't perform better in term of total risk and failed to offer the advantages of diversification and professionalism to the investors.

7. **Yadav and Mishra (1996)** in their paper evaluated the performance of 14 growth schemes using monthly data in India for the period April 1992 to March 1995. Each scheme was evaluated with respect to the broad-based BSE National Index to find out whether the scheme was able to beat the market. It also examined whether the returns were commensurate with the risk undertaken by the fund managers. The study used three risk–adjusted performance measures namely Sharpe Index, Treynor Index and Jensen Measure and one non risk adjusted measure namely average returns. The analysis showed that the funds as a whole performed well in terms of non-risk adjusted measure of average return. In terms of risk adjusted performance, mutual funds in aggregate had a higher Sharpe Index which implied that mutual funds performed well in terms of diversification and total variability of returns. The results showed lower Treynor Index which meant that sampled funds failed to provide adequate risk premium per unit of systematic risk. Though Jensen's alpha was not significantly different from zero, a majority (57 per cent) of the schemes had positive alpha signifying superior performance in terms of selectivity/timing ability of fund managers. The results indicated that fund managers of these growth schemes adopted a conservative investment policy and maintained a low portfolio beta and were successful in limiting losses in a rapidly falling stock market.

OBJECTIVES OF THE STUDY

1. Performance evaluation of mutual fund and comparative analysis of Vanguard Mutual Fund and HDFC Mutual Fund Equity Schemes
2. To analyse the stability of both the funds and its performance evaluation

RESEARCH METHODOLOGY

Research Design is known as a framework combining the research methods, tools and techniques which are undertaken by a researcher. The design allows to hone in on the research methods that are actually more suitable for the subject matter under study. It is basically the arrangement of the activities for the collection and analysis of data in a proper manner which ultimately aims to combine the relevance to the purpose with economy in procedure. The study carried out here is an Analytical Research. This study was conducted for the period 1/01/2013 to 30/09/2020.

HDFC Long Term Advantage Fund -Direct Plan - Growth Option compared with S&P NSE Nifty 50

Period 01/01/2013 to 30/09/2020

			NAV RETURNS	NSE returns
Mean			0.049407	0.043781
Standard deviation			1.032075	1.08775
Beta			0.01312	
covariance of y to x		-0.01552		
variance of y		1.182598		
it is assumed that risk free return is		0.07		
Tp (Treynor's)	**1.569588415**			
Tm	-0.026219			
Sp (Sharpe)	**-0.019953007**			
Sm	-0.025404162			
Rp (Jensen)	**0.0734**			

INTERPRETATION

Standard deviation of the portfolio indicates the risk. The higher the SD the hiver is the deviation from the mean. It can be beater measured with the help of beta. Beta near 1 indicates the fund is more linked with the index. Higher the beta value makes more risky and lower than 0.5 indicates less risky of the security.

Beta of HDFC fund found to be 0.0132 which is less risky but secondly, lower beta also indicates scrip moving in another direction

Sharpe's the larger the Sharpe the better the fund had performed. The performance of the fund was not satisfactory as compared to benchmark returns. The returns are negative 1.99 %. Beta is too low as compared to index returns.

Treynor's under Ideal performance it must move upwards with index returns and viva- vera. The fund is more desirable as compared to index returns. It is compared with risk free rate of return. Assumed risk free return to be 7%. Treynor's index 1.569 to be desirable because it earned more risk premium per unit of systematic risk.

Jenson's measures the beta with assumed returns. The beta moves in the opposite direction indicates its independent performance. As compared to index returns it has shown better returns. In terms of this index its performance is not so great.

Vanguard Growth Index Fund ETF Shares (VUG) USA with Dow Jones
Period 01/01/2013 to 30/09/2020

Mean				**0.064516**	**0.042956**
Standard deviation				1.140121	1.111835
Beta				0.946469	
Covariance of y to x		1.169405			
Variance of y		1.235544			
it is assumed that risk free return is		0.07			
Tp (Treynor's)	**-**				

	0.00579				
Tm	- 0.02704				
Sp (Sharpe's)	**- 0.00481**				
Sm	- 0.02372				
Rp (jensen)	**0.0444**				

Sharpe's the larger the Sharpe the better the fund had performed. The performance of the fund was satisfactory as compared to benchmark returns. The returns are positive 0.481 %. Its beta close to 1 indicates moving with benchmark index.

Treynor's Under Ideal performance it must upwards with index returns and vica vera. The fund is more desirable as compared to index returns. But less volatile as compared to HDFC .

Jenson's measures the beta with assumed returns. The beta moves in the opposite direction indicates its independent performance. As compared to index returns it has shown better returns

Comparative Table

Fund	Sharpe's Index	Treynor's	Jensen's Index	Beta
HDFC Long term Adv Fund	**- 0.019953007**	**1.569588415**	**0.0734**	0.01312
Vanguard Growth Index Fund ETF Shares (VUG) USA	**0.00481**	**0.00579**	**0.0444**	0.946469

SCOPE OF THE STUDY

The present study is restricted to the analysis of financial performance of the selected funds and their interpretation of the published financial data through the use of commonly used tools and techniques.

CONCLUSION

This Study is a comparative analysis of HDFC Mutual Fund Equity Schemes and Vanguard Mutual Fund. With the increase in investment avenues, it becomes essential to evaluate the financial performance as well as the stability of the funds to get the best returns. This study establishes that the overall Vanguard Growth Index Fund ETF Shares found to be more stable and better performer as compared to HDFC Long term advantage funds.

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