PROJECT REPORT
ON

"COMPARATIVE STUDY OF INVESTMENT IN MUTUAL FUNDS V/S ULIPS WITH REFERENCE TO ULHASNAGAR CITY"

A PROJECT SUBMITTED TO
UNIVERSITY OF MUMBAI FOR PARTIAL COMPLETION OF
THE DEGREE OF
MASTERS IN COMMERCE
UNDER THE FACULTY OF COMMERCE

BY

RAHUL H. LUDHWANI
ROLL NO. : 1962085

UNDER THE GUIDANCE OF

ASST. PROF. MADHU TIRTHANI

SHRI SIDH THAKURNATH COLLEGE OF ARTS & COMMERCE
ULHASNAGAR - 421 004.

UNIVERSITY OF MUMBAI
2019-20

PROJECT REPORT

ON

"COMPARATIVE STUDY OF INVESTMENT IN MUTUAL FUNDS V/S ULIPS WITH REFERENCE TO ULHASNAGAR CITY"

A Project Submitted to

University of Mumbai for Partial Completion of the Degree

of

Masters in Commerce

Under the Faculty of Commerce

BY

RAHUL H. LUDHWANI

ROLL NO. : 1962085

UNDER THE GUIDANCE OF

ASST. PROF. MADHU TIRTHANI

SHRI SIDH THAKURNATH COLLEGE OF ARTS & COMMERCE

ULHASNAGAR - 421 004.

UNIVERSITY OF MUMBAI

2019-20

S. S. T. College of Arts & Commerce
(AFFILIATED TO UNIVERSITY OF MUMBAI, MUMBAI)
Gorakshnath Complex, Morya Nagri, Ulhasnagar - 421 004. • Tel.: 9321073000/9321074000

Certificate of Project Completion

Certified that the Project Report titled COMPARATIVE STUDY OF INVESTMENT IN MUTUAL FUNDS V/S ULIPS W.R.T. ULHASNAGAR CITY has been completed satisfactorily in partial fulfilment of MASTER IN COMMERCE course of the University of Mumbai, Mumbai for the academic year 2019 -2020 by MR. RAHUL H. LUDHWANI Roll No. 1962085 a student of "S.S.T. College of Arts & Commerce", Ulhasnagar.

Place : Ulhasnagar

Date :

S.S.T COLLEGE OF ARTS & COMMERCE UNR-4

Internal Guide | Head of Department | Principal

Seen by

Internal Examiner :

Signature :

Date :

External Examiner : Dr. Kesar Lalchandani

Signature :

Date : 24/11/2019

DECLARATION

I the undersigned **MR. RAHUL H. LUDHWANI** here by, declare that the work embodied in this project work titled **"COMPARATIVE STUDY OF INVESTMENT IN MUTUAL FUNDS V/S ULIPS WITH REFERENCE TO ULHASNAGAR CITY"** forms my own contribution to the research work carried out under the guidance of **ASST. PROF. MADHU TIRTHANI** is a result of my own research work and has not been previously submitted to any other University for any other Degree / Diploma to this or any other University.

Wherever reference has been made to previous works of others, it has been clearly indicated as such and included in the bibliography.

Rahul H. Ludhwani

ACKNOWLEDGEMENT

To list who all have helped me is difficult because they are so numerous and the depth is so enormous.

I would like to acknowledge the following as being idealistic channels and fresh dimensions in the completion of this project.

I take this opportunity to thank the **University of Mumbai** for giving me chance to do this project.

I would like to thank my **Principal, Dr. J. C. Purswani** for providing the necessary facilities required for completion of this project.

I take this opportunity to thank our **Coordinator – Asst. Prof. Varsha Sawlani,** for her moral support and guidance.

I would also like to express my sincere gratitude towards my **Project Guide Asst. Prof. Madhu Tirthani** whose guidance and care made the project successful.

I would like to thank my **College Library,** for having provided various reference books and magazines related to my project.

Lastly, I would like to thank each and every person who directly or indirectly helped me in the completion of the project especially **my Parents and Peers** who supported me throughout my project.

OBJECTIVES

- To find which investment option proves to be better.
- To scan the investors behavior in area of Ulhasnagar
- To determine which investment options are mostly preferred by investors.
- To identifying the factors which influence the investor's behavior while taking investment decisions.
- To compare the ULIP and Mutual fund investment on 7 parameters. (liquidity, flexibility, returns, risk factor, cost to be incurred, taxability of income and ease of choice)
- To study the preferences of the investors between mutual funds and ULIPs.

EXECUTIVE SUMMARY

- **Chapter No.1:** Introduction

In this chapter Selection and relevance of the problem, historical background of the problem, brief profile of the study area, definition/s of related aspects, characteristics, different concepts pertaining to the problem etc. can be incorporated by the learner.

- **Chapter No.2:** Research Methodology

This chapter will include Objectives, Hypothesis, Scope of the study, limitations of the study, significance of the study, Selection of the problem, Sample size, Data collection, Tabulation of data, Techniques and tools to be used, etc. can be incorporated by the learner.

- **Chapter No.3:** Literature Review

This chapter will provide information about studies done on the Respective issue. This would specify how the study undertaken is Relevant and contribute for value addition in information/knowledge/ application of study area which ultimately helps the learner to Undertake further study on same issue.

- **Chapter No.4:** Data Analysis, Interpretation and Presentation

This chapter is the core part of the study. The analysis pertaining to collected data will be done by the learner. The application of selected tools or techniques will be used to arrive at findings. In this, table of information's, presentation of graphs etc. can be provided with interpretation by the learner.

- **Chapter No.5:** Conclusions and Suggestions

In this chapter of project work, findings of work will be covered and suggestion will be enlisted to validate the objectives and hypotheses.

COMPARATIVE STUDY OF INVESTMENT IN MUTUAL FUNDS V/S ULIPS WITH REFERENCE TO ULHASNAGAR CITY

INDEX

Abstract

The wise saying, 'Compare apples with apples, and not with oranges' holds true for investments too; however, sometimes investors tend to compare different investment products due to apparent similarities. One such comparison is between Mutual Funds and ULIPs. Mutual fund is a collective investment scheme. Many investors invest their money in the fund to form a pool, which is then invested in stocks, bonds and other asset classes by a fund manager. From time to time, the mutual fund distributes dividend to its investors. However, there are funds where the dividend is reinvested in the scheme and the investor gets a lump sum at the time of exit. On the other hand, ULIP stands for Unit Linked Insurance Plan. Its biggest benefit is that it combines the features of both insurance cover and investment opportunities under a single plan. When the premium is paid, part of the amount goes towards providing the policy holder insurance cover, and the other part is invested in stocks and bonds so that the policy holder will get wealth appreciation. As a policy holder, you have the freedom to choose which asset class the investment should be made in. Policy holders who are risk averse can choose to have their money invested in bonds, while those who don't mind sacrificing risk for higher returns can opt to have the money to be invested in equities. Both ULIPs and mutual funds carry a certain element of risk in them that arise from investing. While the risk may be lower in case of debt investments, it is higher in case of equity investments. While debt investments face the risk of defaults and changes in interest rates, equity investments face the risk of market volatility and the fund manager's skills.

Chapter 1

Introduction

1.1 Introduction to Mutual Funds

To many people, Mutual Funds can seem complicated or intimidating. We are going to try and simplify it for you at its very basic level. Essentially, the money pooled in by a large number of people (or investors) is what makes up a Mutual Fund. This fund is managed by a professional fund manager.

It is a trust that collects money from a number of investors who share a common investment objective. Then, it invests the money in equities, bonds, money market instruments and or other securities. Each investor owns units, which represent a portion of the holdings of the fund. The income gains generated from this collective investment are distributed proportionately amongst the investors after deducting certain expenses, by calculating a scheme's "Net Asset Value or NAV".

A mutual fund is a professionally managed investment fund that pools money from many investors to purchase securities. These investors may be retail or institutional in nature.

A mutual fund is a type of financial vehicle made up of a pool of money collected from many investors to invest in securities like stocks, bonds, money market instruments, and other assets. Mutual funds are operated by professional money managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

Mutual funds give small or individual investors access to professionally managed portfolios of equities, bonds and other securities. Each shareholder, therefore, participates proportionally in the gains or losses of the fund. Mutual funds invest in a vast number of securities, and performance is usually tracked as the change in the total market cap of the fund—derived by the aggregating performance of the underlying investments.

KEY TAKEAWAYS

- A mutual fund is a type of investment vehicle consisting of a portfolio of stocks, bonds, or other securities.
- Mutual funds give small or individual investors access to diversified, professionally managed portfolios at a low price.
- Mutual funds are divided into several kinds of categories, representing the kinds of securities they invest in, their investment objectives, and the type of returns they seek.
- Mutual funds charge annual fees (called expense ratios) and, in some cases, commissions, which can affect their overall returns.
- The overwhelming majority of money in employer-sponsored retirement plans goes into mutual funds.

1.2 History of Mutual Funds in India

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank of India. The history of mutual funds in India can be broadly divided into four distinct phases

First Phase - 1964-1987

Unit Trust of India (UTI) was established in 1963 by an Act of Parliament. It was set up by the Reserve Bank of India and functioned under the Regulatory and administrative control of the Reserve Bank of India. In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988 UTI had Rs. 6,700 crores of assets under management.

Second Phase - 1987-1993 (Entry of Public Sector Funds)

1987 marked the entry of non-UTI, public sector mutual funds set up by public sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first non-UTI Mutual Fund established in June 1987 followed by Canbank Mutual Fund (Dec 87), Punjab National Bank Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund (Oct 92). LIC established its mutual fund in June 1989 while GIC had set up its mutual fund in December 1990.

At the end of 1993, the mutual fund industry had assets under management of Rs 47,004 crores.

Third Phase - 1993-2003 (Entry of Private Sector Funds)

With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund families. Also, 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993.

The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996.

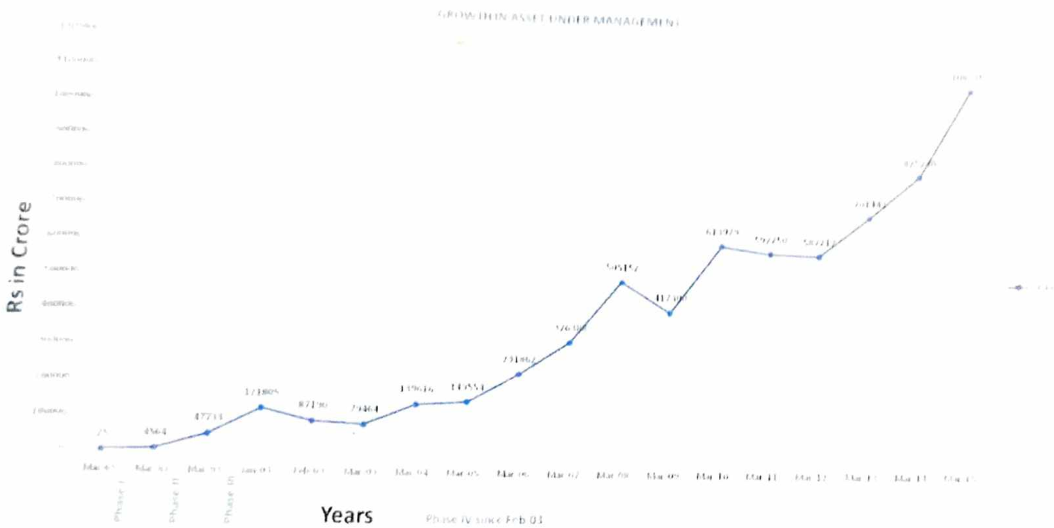
The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. As at the end of January 2003, there were 33 mutual funds with total assets of Rs. 1, 21,805 crores. The Unit Trust of India with Rs. 44,541 crores of assets under management was way ahead of other mutual funds.

Fourth Phase - since February 2003

In February 2003, following the repeal of the Unit Trust of India Act 1963 UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs. 29,835 crores as at the end of January 2003, representing broadly, the assets of US 64 scheme, assured return and certain other schemes. The Specified Undertaking of Unit Trust of India, functioning under an administrator and under the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations.

The second is the UTI Mutual Fund, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. With the bifurcation of the erstwhile UTI which had in March 2000 more than Rs. 76,000 crores of assets under management and with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth.

The graph indicates the growth of assets over the years.



Note:

Erstwhile UTI was bifurcated into UTI Mutual Fund and the Specified Undertaking of the Unit Trust of India effective from February 2003. The Assets under management of the Specified Undertaking of the Unit Trust of India has therefore been excluded from the total assets of the industry as a whole from February 2003 onwards.

1.3 Features of Mutual Funds

- **Portfolio Diversification/Risk Diversification**

Most Mutual Funds invest in 50 to 100 different investments based on market capitalisation, sectors and many other demographics. *Only on a rare occasion do all stocks decline at the same time and in the same proportion. Hence, Mutual Funds offer a diversified investment portfolio even with a small amount of investment that would otherwise require big capital. Even with big capital, it is extremely difficult and time-consuming to purchase and manage a wide range of investments individually. While investing in few shares or debentures directly is possible, the risk of potential loss is all on the investor. However, Mutual Funds reduce the risk of loss as the portfolio is largely diversified and the purchases are backed by research and experience of the fund house. Moreover, the loss is also shared with other investors in the same fund. This diversification of risk is one of the key benefits of a collective investment instrument like mutual funds.

* Only Sector funds invest across one industry making them less diversified and therefore more volatile.

- **Professional Management**

Mutual Fund schemes are managed by qualified experienced professionals who work towards the fund's defined objective. These financial experts are accompanied by a specialized investment research team. The experts and their teams diligently and judiciously study companies, their products and performance. After thorough analysis, the best investment option most aptly suited to achieve the scheme's objective is chosen. This continuous process adds value to your investment and helps obtain higher returns.

While, investors may differ in their investment needs based on their financial goals, currently, they have over 8000+ schemes to choose from to meet their goals. Therefore, mutual funds make the best way one can invest in Equities, Debt or Commodities (mainly Gold)

- **Affordability**

A mutual fund invests generally buy and sell various asset classes in large volumes allowing investors to benefit from lower trading costs. Investors can get exposure to such portfolios with an investment as modest as Rs.500/-* in mutual funds through a Systematic Investment Plan. Such portfolio would otherwise be extremely expensive to purchase and maintain for an investor investing directly in stock market.

*Subject to requirements of the Asset Management Company (AMC).

- **Liquidity**

With open ended funds, investors can redeem (encash) all or part of their investments at prevailing net asset value, at any point of time. Mutual Funds are more liquid than most investments in shares, deposits, and bonds. In addition, a standardised process enables quick and efficient redemption allowing investors to get cash in hand as soon as possible. For closed ended schemes, investors can redeem their investments at prevailing Net Asset Value, subject to exit load at specific intervals, if provided in the scheme. In certain schemes, where lock in period is mentioned, investor cannot redeem his investment until that period.

- **Transparency**

Mutual Funds are the most transparent form of investment. Investors receive detailed information and timely updates about the nature of investments made, fund manager's investment strategy behind the investments, the exact amount invested in each type of security, etc. Moreover, the performance of a Mutual Fund is reviewed by various publications and rating agencies, making it easy for investors to compare one fund to another.

- **Rupee-cost Averaging**

Rupee cost averaging or SIP provides the investor a disciplined approach of investing specific amount at regular intervals regardless of the unit price of the investment. Therefore, the money invested fetches more units when the price is low and lesser when the price is high. Thus, allowing you to achieve a lower average cost per unit over time. The strategy helps smoothen out market ups and downs in the long run, while reducing the risk of investing in volatile markets.

- **Regulations**

All Mutual Funds are required to register with Securities Exchange Board of India (SEBI). With investor interest at the helm, SEBI has laid down strict regulations to safeguard investors against possible frauds. It is even mandatory for Mutual Fund distributors to register with Association of Mutual Funds in India (AMFI) and abide the norms laid by the Securities and Exchange Board of India (SEBI) and AMFI for the distributors.

- **Choice of Investment**

Mutual Funds are the only product category that caters to every one's needs. You will always find a mutual fund that matches your time horizon – long, medium, or short; and your risk-taking ability – low, medium, high. All this irrelevant of how much you invest, be it a very small investment or a huge Lumpsum. Your adviser will help choose the right fund/s for you keeping in mind your profile.

❖ **Minimizing Costs**

Mutual Funds help investors to benefit from economies of scale as mutual funds pool money from vast number people with common interest and invest their money in the relevant asset class/classes. This helps the investors share the cost of management of their money.

1.4 Types of Mutual Funds in India

1. Based on Asset Class

a. Equity Funds

Primarily investing in stocks, they also go by the name stock funds. They invest the money amassed from investors from diverse backgrounds into shares of different companies. The returns or losses are determined by how these shares perform (price-hikes or price-drops) in the stock market. As equity funds come with quick growth, the risk of losing money is comparatively higher.

b. Debt Funds

Debt funds invest in fixed-income securities like bonds, securities and treasury bills – Fixed Maturity Plans (FMPs), Gilt Fund, Liquid Funds, Short Term Plans, Long Term Bonds and Monthly Income Plans among others – with fixed interest rate and maturity date. Go for it, only if you are a passive investor looking for a small but regular income (interest and capital appreciation) with minimal risks.

c. Money Market Funds

Just as some investors trade stocks in the stock market, some invest in the money market, also known as capital market or cash market. The government, banks or corporations usually run it by issuing money market securities like bonds, T-bills, dated securities and certificates of deposits, among others. The fund manager invests your money and disburses regular dividends to you in return. If you opt for a short-term plan (13 months max), the risk is relatively less.

d. Hybrid Funds

Hybrid Funds (Balanced Funds) is an optimum mix of bonds and stocks, thereby bridging the gap between equity funds and debt funds. The ratio can be variable or fixed. In short, it takes the best of two mutual funds by distributing, say, 60% of assets in stocks and the rest in bonds or vice versa. This is suitable for investors willing to take more risks for 'debt plus returns' benefit rather than sticking to lower but steady income schemes.

2. Based on Structure

Mutual funds can be categorized based on different attributes (like risk profile, asset class, etc.). Structural classification – open-ended funds, close-ended funds, and interval funds – is broad in nature and the difference depends on how flexible is the purchase and sales of individual mutual fund units.

a. Open-Ended Funds

These funds don't have any constraints in a period or a number of units – an investor can trade funds at their convenience and exit when they like at the current NAV (Net Asset Value). This is why the unit capital continually changes with new entries and exits. An open-ended fund may also decide to stop taking in new investors if they do not want to (or cannot manage significant funds).

b. Closed-Ended Funds

Here, the unit capital to invest is fixed beforehand, and hence, they cannot sell a more than a pre-agreed number of units. Some funds also come with an NFO period; wherein there is a deadline to buy units. It has a specific maturity tenure, and fund managers are open to any fund size, however large. SEBI mandates investors to be given either repurchase option or listing on stock exchanges to exit the scheme.

c. Interval Funds

This has traits of both open-ended and closed-ended funds. Interval funds can be purchased or exited only at specific intervals (decided by the fund house) and are closed the rest of the time. No transactions will be permitted for at least 2 years. This is suitable for those who want to save a lump sum for an immediate goal (3-12 months).

3. Based on Investment Goals

a. Growth Funds

Growth funds usually allocate a considerable portion in shares and growth sectors. suitable for investors (mostly Millennials) who have a surplus of idle money to be distributed in riskier plans (albeit with possibly high returns) or are positive about the scheme.

b. Income Funds

This belongs to the family of debt mutual funds that distribute their money in a mix of bonds, certificate of deposits and securities among others. Helmed by skilled fund managers who keep the portfolio in tandem with the rate fluctuations without compromising on the portfolio's creditworthiness, Income Funds have historically earned investors better returns than deposits and are best suited for risk-averse individuals from a 2-3 years perspective.

c. Liquid Funds

Like Income Funds, this too belongs to the debt fund category as they invest in debt instruments and money market with a tenure of up to 91 days. The maximum sum allowed to invest is Rs 10 lakhs. One feature that differentiates Liquid Funds from other debt funds is how the Net Asset Value is calculated – NAV of liquid funds are calculated for 365 days (including Sundays) while for others, only business days are calculated.

d. Tax-Saving Funds

ELSS or Equity Linked Saving Scheme is gaining popularity as it serves investors the double benefit of building wealth as well as save on taxes – all in the lowest lock-in period of only 3 years. Investing predominantly in equity (and related products), it has been known to earn you non-taxed returns from 14-16%. This is best-suited for long-term and salaried investors.

e. Aggressive Growth Funds

Slightly on the riskier side when choosing where to invest in, the Aggressive Growth Fund is designed to make steep monetary gains. Though susceptible to market volatility, you may select one as per the beta (the tool to gauge the fund's movement in comparison with the market). Example, if the market shows a beta of 1, an aggressive growth fund will reflect a higher beta, say, 1.10 or above.

f. Capital Protection Funds

If protecting your principal is your priority, Capital Protection Funds can serve the purpose while earning relatively smaller returns (12% at best). The fund manager invests a portion of your money in bonds or CDs and the rest in equities. You will not incur any loss. However, you need a least 3 years (closed-ended) to safeguard your money, and the returns are taxable.

g. Fixed Maturity Funds

Investors choose as the FY ends to take advantage of triple indexation, thereby bringing down tax burden. If uncomfortable with the debt market trends and related risks, Fixed Maturity Plans (FMP) – investing in bonds, securities, money market etc. – presents a great opportunity. As a close-ended plan, FMP functions on a fixed maturity period, which could range from 1 month to 5 years (like FDs). The Fund Manager makes sure to put the money in an investment with the same tenure, to reap accrual interest at the time of FMP maturity.

h. Pension Funds

Putting away a portion of your income in a chosen Pension Fund to accrue over a long period to secure you and your family's financial future after retiring from regular employment – it can take care of most contingencies (like a medical emergency or children's wedding). Relying solely on savings to get through your golden years is not recommended as savings (no matter how big) get used up. EPF is an example, but there are many lucrative schemes offered by banks, insurance firms etc.

4. Based on Risk

a. Very Low-Risk Funds

Liquid Funds and Ultra Short-term Funds (1 month to 1 year) are not risky at all, and understandably their returns are low (6% at best). Investors choose this to fulfil their short-term financial goals and to keep their money safe until then.

b. Low-Risk Funds

In the event of rupee depreciation or unexpected national crisis, investors are unsure about investing in riskier funds. In such cases, fund managers recommend putting money in either one or a combination of liquid, ultra short-term or arbitrage funds. Returns could be 6-8%, but the investors are free to switch when valuations become more stable.

c. Medium-risk Funds

Here, the risk factor is of medium level as the fund manager invests a portion in debt and the rest in equity funds. The NAV is not that volatile, and the average returns could be 9-12%.

d. High-risk Funds

Suitable for investors with no risk aversion and aiming for huge returns in the form of interest and dividends, High-risk Mutual Funds need active fund management. Regular performance reviews are mandatory as they are susceptible to market volatility. You can expect 15% returns, though most high-risk funds generally provide 20% returns (and up to 30% at best).

5. Specialized Mutual Funds

a. Sector Funds

Investing solely in one specific sector, theme-based mutual funds. As these funds invest only in specific sectors with only a few stocks, the risk factor is on the higher side. One must be constantly aware of the various sector-related trends, and in case of any decline, exit immediately. However, sector funds also deliver great returns. Some areas of banking, IT and Pharma have witnessed huge and consistent growth in the recent past and are predicted to be promising in future as well.

b. Index Funds

Suited best for passive investors, index funds put money in an index. A fund manager does not manage it. An index fund identifies stocks and their corresponding ratio in the market index and put the money in similar proportion in similar stocks. Even if they cannot outdo the market (which is the reason why they are not popular in India), they play it safe by mimicking the index performance.

c. Funds of Funds

A diversified mutual fund investment portfolio offers a slew of benefits, and 'Funds of Funds' aka multi-manager mutual funds are made to exploit this to the tilt – by putting their money in diverse fund categories. In short, buying one fund that invests in many funds rather than investing in several achieves diversification as well as saves on costs.

d. Emerging market Funds

To invest in developing markets is considered a steep bet, and it has undergone negative returns too. India itself a dynamic and emerging market and investors to earn high returns from the domestic stock market, they are prone to fall prey to market volatilities. However, in a longer-term perspective, it is evident that emerging economies will contribute to the majority of global growth in the coming decade as their economic growth rate is way superior to that of the US or the UK.

e. International/ Foreign Funds

Favored by investors looking to spread their investment to other countries, Foreign Mutual Funds can get investors good returns even when the Indian Stock Markets perform well. An investor can employ a hybrid approach (say, 60% in domestic equities and the rest in overseas funds) or a feeder approach (getting local funds to place them in foreign stocks) or a theme-based allocation (e.g., Gold Mining).

f. Global Funds

Aside from the same lexical meaning, Global Funds are quite different from International Funds. While a global fund chiefly invests in markets worldwide, it also includes investment in your home country. The International Funds concentrate solely on foreign markets. Diverse and universal in approach, Global Funds can be quite risky to owing to different policies, market and currency variations, though it does work as a break against inflation and long-term returns have been historically high.

g. Real Estate Funds

In spite of the real estate boom in India, many are wary about investing in such projects due to multiple risks. Real Estate Fund can be a perfect alternative as the investor is only an indirect participant by putting their money in established real estate companies/trusts rather than projects. A long-term investment, it negates risks and legal hassles when it comes to purchasing a property as well as provide liquidity to some extent.

h. Commodity-focused Stock Funds

Ideal for investors with sufficient risk-appetite and looking to diversify their portfolio, commodity-focused stock funds give a chance to dabble in multiple and diverse trades. Returns are not periodic and are either based on the performance of the stock company or the commodity itself. Gold is the only commodity in which mutual funds can invest directly in India. The rest purchase fund units or shares from commodity businesses.

i. Market Neutral Funds

For investors seeking protection from unfavourable market tendencies while sustaining good returns, market-neutral funds meet the purpose (like a hedge fund). With better risk-adaptability, these funds give high returns, and even small investors can outstrip the market without stretching the portfolio limits.

j. Inverse/Leveraged Funds

While a regular index fund moves in tandem with the benchmark index, the returns of an inverse index fund shift in the opposite direction. It is nothing but selling your shares when the stock goes down, only to buy them back at an even lesser cost.

k. Asset Allocation Funds

Combining debt, equity and even gold in an optimum ratio, this is a greatly flexible fund. Based on a pre-set formula or fund manager's inferences based on the current market trends, Asset Allocation Funds can regulate the equity-debt distribution. It is almost like Hybrid Funds but requires great expertise in choosing and allocation of the bonds and stocks from the fund manager.

l. Gift Funds

Yes, you can gift a mutual fund or a SIP to your loved ones to secure their financial future.

m. Exchange-traded Funds

It belongs to the Index Funds family and is bought and sold on exchanges. Exchange-traded Funds have unlocked a world of investment prospects, enabling investors to gain extensive exposure to stock markets abroad as well as specialized sectors. An ETF is like a Mutual Fund that can be traded in real-time at a price that may rise or fall many times in a day.

1.5 Benefits & Limitations of Mutual Funds

1.5.1 Benefits of Mutual Funds

Some of the key benefits and advantages of mutual funds include simplicity, cost, diversification, and professional management. These and other features of mutual funds make them the first and best investment choice for do-it-yourself investors, as well as professional money managers.

If you are a beginner and want to know why mutual funds can be a good fit for your investment needs, or if you are an advanced investor and need a reminder of why mutual funds may be best-suited for your financial goals and lifestyle, here are some of the many benefits you need to know.

1. Simplicity: Mutual Funds Are Easy to Understand

Anything can be made into something more complex than it needs to be and mutual funds are no exception to this truth. However, mutual funds require no experience or knowledge of economics, financial statements, or financial markets to be a successful investor. For beginners, here is a simple definition of mutual fund: A mutual fund is an investment security type that enables investors to pool their money together into one professionally managed investment. Mutual funds can invest in stocks, bonds, cash and/or other assets. These underlying security types, called holdings combine to form one mutual fund, also called a portfolio.

In different words, Mutual funds can be considered baskets of investments. Each basket holds dozens or hundreds of security types, such as stocks or bonds. Therefore, when an investor buys a mutual fund, they are buying a basket of investment securities. Simple! Yes, there are many things to know about mutual funds but compared to the broad world of financial products, mutual funds are quite easy to use and understand.

2. Accessibility: Mutual Funds Are Easy to Buy

Mutual funds are offered at brokerage firms, discount brokers online, mutual fund companies, banks, and insurance companies. Even beginning investors can easily open an account at a no-load mutual fund company, such as Vanguard Investments, and open an account within minutes.

3. Diversification: Mutual Funds Have Broad Market Exposure

One mutual fund can invest in dozens, hundreds, or even thousands of different investment securities, making it possible to achieve diversification by investing in just one fund. However, it is smart to diversify into several different mutual funds.

4. Variety: Mutual Funds Come In Many Different Categories and Types

As you grow your portfolio of mutual funds, you will want to diversify into various mutual fund categories and types. You can invest in mutual funds that cover the main asset classes (stocks, bonds, and cash) and various sub-categories or you can even venture into specialized areas, such as sector funds or precious metals funds.

5. Affordability: Mutual Funds Have Low Minimums

Most mutual funds have minimum initial investment requirements of $3,000 or less. In many cases, if the investor initiates a systematic investment program, where they have a fixed dollar amount or fixed number of shares purchased once per month, the initial investment can be as low as $1,000.

6. Low Expense: Mutual Funds Can Cost Less to Manage Than Other Portfolio Types

Costs as a percentage of assets in the portfolio may be lower for an actively-managed mutual fund when compared to an actively-managed portfolio of individual securities. When you add up transaction costs, annual fees paid to a brokerage firm, and the cost for research tools or investment advice, mutual funds are often less expensive than the typical portfolio of stocks. Several variables may influence the cost of managing a portfolio, such as the amount of trading activity, the size of transaction, and taxes.

7. Professional Management: Mutual Funds Have a Team of Professionals Researching and Analyzing Investments So You Don't Have To!

Perhaps the greatest benefit of mutual funds is that investors can save countless hours of time, energy and frustration involved with the research and analysis required to find quality investments to hold in a portfolio. That's not to speak of the skill, desire and patience required to do a job well in any professional pursuit. Mutual funds enable investors to do more of the things in life they enjoy rather than spending time and energy on investment matters.

8. Flexibility: Mutual Funds Have Several Uses and Applications

All of the above benefits of mutual funds overlap into simplicity and flexibility. You can invest in just one fund or invest in a wide variety. Automatic deposit, systematic withdrawal, 401(k) plans, annuity sub-accounts, dividends, short-term savings, long-term savings, and nearly limitless investment strategies make mutual funds the best overall investment type for both beginners and advanced investors.

1.5.2 Limitations of Mutual Funds

There are certainly some benefits to mutual fund investing, but you should also be aware of the drawbacks associated with mutual funds.

1. No Insurance:

Mutual funds, although regulated by the government, are not insured against losses. The Federal Deposit Insurance Corporation (FDIC) only insures against certain losses at banks, credit unions, and savings and loans, not mutual funds.

That means that despite the risk-reducing diversification benefits provided by mutual funds, losses can occur, and it is possible (although extremely unlikely) that you could even lose your entire investment.

2. Dilution: Although diversification reduces the amount of risk involved in investing in mutual funds, it can also be a disadvantage due to dilution. For example, if a single security held by a mutual fund doubles in value, the mutual fund itself would not double in value because that security is only one small part of the fund's holdings. By holding a large number of different investments, mutual funds tend to do neither exceptionally well nor exceptionally poorly.

3. Fees and Expenses: Most mutual funds charge management and operating fees that pay for the fund's management expenses (usually around 1.0% to 1.5% per year for actively managed funds). In addition, some mutual funds charge high sales commissions, 12b-1 fees, and redemption fees. And some funds buy and trade shares so often that the transaction costs add up significantly. Some of these expenses are charged on an ongoing basis, unlike stock investments, for which a commission is paid only when you buy and sell.

4. Poor Performance: Returns on a mutual fund are by no means guaranteed. In fact, on average, around 75% of all mutual funds fail to beat the major market indexes, like the S&P 500, and a growing number of critics now question whether or not professional money managers have better stock-picking capabilities than the average investor.

5. Loss of Control: The managers of mutual funds make all of the decisions about which securities to buy and sell and when to do so. This can make it difficult for you when trying to manage your portfolio. For example, the tax consequences of a decision by the manager to buy or sell an asset at a certain time might not be optimal for you. You also should remember that you are trusting someone else with your money when you invest in a mutual fund.

6. Trading Limitations: Although mutual funds are highly liquid in general, most mutual funds (called open-ended funds) cannot be bought or sold in the middle of the trading day. You can only buy and sell them at the end of the day, after they've calculated the current value of their holdings.

7. Size: Some mutual funds are too big to find enough good investments. This is especially true of funds that focus on small companies, given that there are strict rules about how much of a single company a fund may own. If a mutual fund has $5 billion to invest and is only able to invest an average of $50 million in each, then it needs to find at least 100 such companies to invest in; as a result, the fund might be forced to lower its standards when selecting companies to invest in.

8. Inefficiency of Cash Reserves: Mutual funds usually maintain large cash reserves as protection against a large number of simultaneous withdrawals. Although this provides investors with liquidity, it means that some of the fund's money is invested in cash instead of assets, which tends to lower the investor's potential return.

9. Too Many Choices: The advantages and disadvantages listed above apply to mutual funds in general. However, there are over 10,000 mutual funds in operation, and these funds vary greatly according to investment objective, size, strategy, and style. Mutual funds are available for virtually every investment strategy (e.g. value, growth), every sector (e.g. biotech, internet), and every country or region of the world. So even the process of selecting a fund can be tedious.

1.6 Introduction to ULIPs

ULIP stands for unit linked insurance plans. ULIP is a combination of insurance and investment. Here policyholder can pay a premium monthly or annually. A small amount of the premium goes to secure life insurance and rest of the money is invested just like a mutual fund does. Policyholder goes on investing through the term of the policy – 5, 10 or 15 years and accumulates the units. ULIP offers investors options that invest in equity and debt. An aggressive investor can pick equity oriented fund option whereas a conservative one can go with debt option. "If you have a long term ULIP, go for equity oriented fund option – which is called a growth option," says Deepak Yohannan, CEO of myinsuranceclub.com

He further points out that the recently launched ULIP are better than the older ULIP due to lower charges. One can pick and choose the low cost ULIP. While traditional insurance plans offer 4% to 6% returns, ULIP can offer you double digit returns if you are invested in equity funds, says Deepak Yohannan.

1.7 History of ULIPs in India

Unit Linked Insurance Plan (ULIP) is one of the most abused financial products in India now. However, ULIP, where you get the insurance and investment together, was not a bad word earlier.

Unit Trust of India (UTI) launched the first ULIP in India in 1971. Second ULIP came from LIC Mutual Fund in 1989, ie after the MF industry was opened for PSU entities. Both were well managed schemes and I have not came across any investor complaining about them.

ULIP, as a concept, is a major improvement on 'traditional or endowment plans' from insurance companies. This is because the endowment plans are totally opaque. As an investor, you have no idea how much of your premium goes for insurance cover or investment, where the money is invested, how much is the return generated, etc. Though insurance companies declare some 'annual bonus' in the middle, it is also useless because investors' can't withdraw these bonuses till maturity.

1.8 Features of ULIPs

ULIPs are considered as a good investment option because of the tax benefits they provide. However, is tax exemption the only reason for you to invest in ULIPs? ULIPs provide market-linked returns while a small portion of your premium goes into providing protection i.e. life cover.

Here are some features which ULIPs offer that you should know while investing.

1. **Insurance plus Investment – Double benefits**

When you choose an ULIP you get an insurance cover plus investment option. This will not only give your family protection throughout the policy term but also provide good returns on investment at the time of maturity. You get an option to invest in a range of funds which is a mix of equity and debt so that you can fulfil your long-term financial goals.

2. Triple EEE benefit

ULIPs provide the benefit of EEE i.e. Exempt-Exempt-Exempt. This means that the customers are eligible for tax deduction during all three phases ie: the investment, earnings and withdrawal stage. The premiums paid can be claimed as deductions from your taxable income during the year under section 80C of the Income Tax Act. The interest or profit gained and the maturity amount is also exempted from tax under section 10(10D) of Income Tax Act. This means that all investments you make in ULIPs are free of the tax burden.

3. Top-up facility available

Certain ULIPs allow you to increase the amount of investment. This facility is known as the top-up facility where you get to put an added amount over and above the existing policy. You can even avail tax benefits on these top-ups too.

4. Flexible investment options

ULIPs provide an option to switch between funds. Switching option allows you to change the ratio of invested amount where you can shift your funds from equity to debt or a mixture of both the funds as per your risk appetite and life stages.

This unique feature is non-existent in other investment options such as mutual funds. The new age ULIP provides free switches so that you can invest without any worries.

5. Charges structure

Generally, there are around 5 charges involved in ULIP – premium allocation charges, policy administration charge, mortality charge, fund management charge and surrender charge. These charges are one of the reasons why most people think twice before investing in ULIPs. However, with an evolution that has taken place and changed the face of ULIPs. The new age ULIP doesn't have premium allocation, policy administration charges and surrender charges after a specified time period. So if you were hesitant to invest in ULIPs since so long this is one worry you can take off your plate and start considering ULIPs.

Also for a long-term ULIP, these charges should not bother you as the kind of returns ULIP will give in long-term will help you recover all the charges borne in the initial years of investment.

1.9 Types of ULIP Plans in India

Having yourself covered under a comprehensive life insurance policy and also mobilizing your idle savings is a really prudent investment strategy. There are many types of ULIPs categorized in different ways, when being approached with different mind sets. ULIPs are popularly categorized by risk, and by investment objective.

ULIPs based on the risk:

1. **Equity Funds:** These ULIPs invest primarily in high-risk equities and stocks on companies. They are the riskiest ULIP investment, and also the one offering the highest rewards. If you have a medium-to-high risk appetite, and think that fortune favors the bold – go for one of these plans. If you win here you win big. **High risk, high reward.**
2. **Income, fixed-interest, and bond funds:** Under these ULIPs, your funds will be invested in government securities, fixed-income securities, corporate bonds, and the like, which offer a medium and risk, and medium reward. **Medium risk, low to medium reward.**
3. **Cash Funds:** Investments in these ULIPs will see your corpus directed towards money market funds, cash and bank deposits and other money market instruments which are in the lowest risk category. **Low risk (almost no risk) and low reward.**
4. **Balanced Funds:** These are the most stable and prudent investment based on the very fact that they vary the amount of investment that goes to different places. It invests in proportion, and divides the total investible amount between equity investments in high risk equities, company stocks, etc. and fixed-interest instruments which pose a lower risk. **Medium risk, high reward.**

ULIPs based on the investment objectives:

1. **To fund your child's education:** This is one of the more popular reasons for choosing a ULIP – as it meets the requirements of securing your children and dependents against financial suffering in the event of your death, and plans pay-outs in such a way that they will be used for the intended purpose. These ULIPs usually pay benefits out once a year, when it's needed for the specific purpose for which it was taken.

2. **To build a corpus of funds:** Idle savings can be put to work through investment plans, and one that also gives you the option of life insurance cover basically kills two birds with one stone. Instead of navigating through hell to find the right investment at the right interest rate and the right tenure, people tend to let the insurance company manage their funds. Building a large corpus is a time consuming venture, when approached through the regular method of hard work. ULIPs limit your involvement in the management of funds and let your enjoy a piece of the profit cake.

ULIPs available for creating wealth:

1. **Life stage based s/ non-life stage based:** These plans consider themselves to be your financial aides, and vary your investments between different levels of risk as you get older. The plan understands that priorities change over time, and that risk appetite is highest in your youth. Investments will be staggered between equity & debt instruments in different proportions at different times.
2. **Guarantee / non-guarantee:** ULIPs today offer guaranteed additions and benefits, but these are generally very long term. Guaranteed ULIPs also separate the investor from any kind of risk, although the reward is slightly lesser. Non-guaranteed ULIPs offer a range of investment to choose from, ranging between varying levels of risk. While these make no promises, they afford you the opportunity to decide where your money goes, and when.
3. **Single premium / regular premium:** Everyone has their own premium paying capacity. Single premium plans require one lump sum of premium to be paid at the start of the plan, and regular premium plans divide and stagger the premium payments over regular intervals.
4. **To plan for retirement:** When your regular source of income stops, and you're past the part of your life when you were able to work, retirement corpus building ULIPs can come rescue you. There are specific ULIP plans designed to take care of you in your twilight years. They offer regular pay-outs after the plan ends, and you will still receive an amount that can keep you comfortable. It is when these payments start that you will truly realise the benefit of working for money, and having money work for you.

5. **To meet medical or personal emergencies:** Sometimes there are huge unavoidable expenses that we must bear. Medical emergencies, accidents, legal fees, settlement amounts, debt, etc. can really hit you hard when you least expect it. There are plans that help you build a corpus and use it as you would a health insurance policy. When you're in the hospital and in need of quick cash, fast, the plan allows you to partially withdraw from your larger maturity corpus to meet the immediate expense

GST of 18% is applicable on life insurance effective from the 1st of July, 2017

1.10 Benefits & Limitations of ULIPs

1.10.1 Benefits of ULIPs

Financial Planning is critical for every individual, be it for providing financial aid to the family or securing a financial future for them. And with various financial products available in the market, it might get difficult to select one single product. But, if you have clarity and objectives set, it is simpler for you to choose a product.

So, if you wish to make an investment and plan on purchasing an insurance plan, a Unit Linked Insurance Plan (ULIP) is the best bet. There are various advantages that ULIP have over other savings plans. To start with, ULIP provide investors flexibility, which traditional insurance plans lacks. Additionally, the potential to generate inflation-adjusted returns is another feature where ULIPs score. Likewise, there are some other ULIP benefits that you should know too.

Before you decide on purchasing the Unit Linked Insurance Plan, let's have a look at some of its other benefits:

1. ULIPs Offer Dual Advantage in a Single Solution: Insurance + Investment

ULIP is an answer for two products at the same time. On one hand, you pay premium for life insurance protection; on the other hand, you invest in funds according to your choice. In this way, not only do you guarantee protection but additionally plan your finances for the future.

2. Offers a Wide Choice of Investment Options

You can choose the funds on the basis of your risk appetite. For instance,

- If you are a low risk-taker, you can choose to invest in debt funds
- If you are moderate risk-taker, you can choose to invest in balanced funds

- If you are a high-risk taker, you can choose to invest in equity funds

3. Switch Facility: Gives Flexibility of Portfolio Switch

ULIPS also offer the flexibility to switch from one fund to other, i.e. equity to debt and vice-versa, based on the ongoing market conditions or change in your investment goals. This option, thus, allows you to change the ratio of your invested amount, that too, without any additional expense.

4. Availability of Top-up Facility

You can invest a voluntary extra payment or a top-up premium, into your ULIP, which is over and above your existing premium payment. This particularly makes sense when your ULIP plan is performing well, and you have extra cash to add more money to your plan. Also, it's much easier and cost efficient rather than purchasing a new ULIP plan altogether, and because it's voluntary, you don't have to commit to that extra investment every premium payment period.

5. A Great Long-Term Investment Option

Investing in ULIP is ideal if you seek long-term wealth creation. This is because the returns on ULIPs are linked to the stock market. So, while you invest for long-term, it is possible to digest market fluctuations and risks and earn much higher returns. In this way, if you have long-term goals, for example, making a down payment on your house or funding your child's education, ULIP is a decent choice to fund these goals.

6. Flexibility to Opt for Rider

Another unique ULIP benefits include the flexibility of adding a rider. A rider is add-on protection that provides you additional cover along with your regular plan, making it a comprehensive financial protection.

7. ULIPs Offer Tax Benefits

ULIP being a life insurance product provides tax benefits for premiums paid. You get tax benefits under Section 80C up to Rs 1.5 lakhs of premium paid, and all maturity payouts received are tax-exempt under Section 10D of the Income Tax Act, 1961. Consequently, you not only save money but also help it grow. Unlike some other alternative investments there is no impact of long term capital gains tax on ULIPs. Hence ULIP get more thumbs up when it comes to tax efficiency.

Conclusion:

These numerous ULIP benefits make ULIPs an ideal investment option for your long-term financial goals. So, if you want to avail market-linked growth and benefit of life risk-cover, ULIP is an excellent option to explore.

1.10.2 Limitations of ULIPs

1. Liquidity Constraint

The lock-in period of a standard ULIP plan is five years which means you cannot withdraw money before five years. This poses a serious problem if you need cash and won't be in the position to liquidate funds.

2. Greater Cost of Insurance

The insurer charges an amount every year on the life cover applied for by the insured. This basically is the cost of insurance. The mortality charge on a ULIP is said to be 50% higher than the cost of insurance on normal term plans.

3. High Volatility

ULIP is a market-linked investment tool. So as a result, if the market conditions aren't conducive, the plan may not perform resulting in low returns. This is especially applicable in the initial period of your plan.

4. Too Complex to Comprehend

ULIP is a complex investment option as far the calculation of investment amount and insurance amount is concerned. Also, the premium under life cover is usually expensive as compared to a normal term insurance .

5. Limited Number of Switches

Majority of insurance providers offer the option to switch to different insurance policy only up to a certain limit. Beyond this limit every transaction is charged.

6. Possibility of Mis-selling

Beware of your insurance provider advising you to stop premium payments and asking you to switch to a different policy. Always remember to check with the insurance company if this kind of an arrangement is in place.

Conclusion:

Opting for a ULIP plan like any other investment tool is a crucial decision and should be taken basis your needs, and financial goals. If you are planning for your child's higher studies or wedding, ULIPs will help you fulfill these goals. So, go on and plan your finances now.

1.11 Statement of the Research Problem

The financial savings of the households in India and the savings of the private corporate sector form the main source of funds for the mutual fund and insurance industry. For individual investor, direct investment in equity was a risky proposition and hence an important deterring factor. Mutual funds have potential to offer a safer route to the vast untapped households that still seem to prefer bank savings. Insurance on the other hand is preferred by the public for the life cover extended to individual. ULIP however generates income on the premium because of the investment options.

The investor has got to make a choice between pure investment and investment with insurance. Firstly, funds have to deliver in terms of performance. Comparisons are bound to occur particularly between fund return and benchmark indices. Outperforming benchmarks with lower costs is an important factor to attract investment. Apart from performance there is the threat of moral hazards such as hidden costs and higher agent commissions.

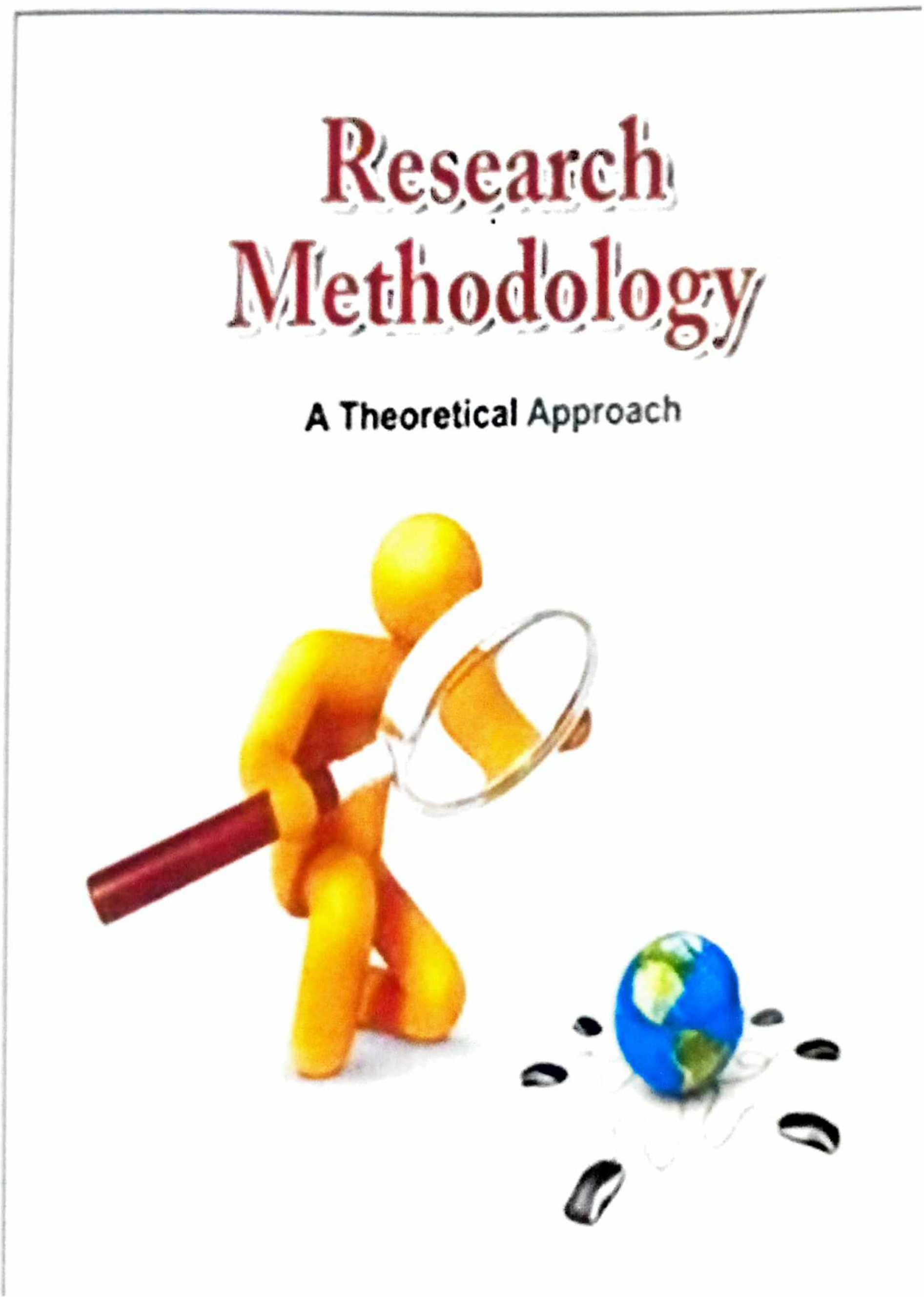
ULIP is gaining popularity due to its tax-free nature. But the taxability of income is not the only parameter on which an instrument should be judged. The study focuses on seven key parameters. These parameters include liquidity, flexibility, returns, risk factor, cost to be incurred, and taxability of income and ease of choice. ULIPs and mutual funds investment are analyzed on these seven parameters, so as to decide which one is a better investment option.

1.12 Brief profile of the Study Area

Ulhasnagar is a city located in the Thane district of Maharashtra state in Konkan division. located about 55 km from Chhatrapati Shivaji Maharaj Terminus railway station. This city is part of Mumbai Metropolitan Region managed by MMRDA. It had an estimated population of 506,098 at the 2011 Census. Ulhasnagar is a municipal town and the headquarters of the Tahsil bearing the same name. It is a railway station on the Mumbai-Pune route of the Central Railway zone.

Primary survey is taken from the investors living in the area of Ulhasnagar. Data is collected through random sampling unit and data is collected through questionnaire form 50 respondents

Chapter 2



Research methodology is a careful investigation for inquiring in a systematic method and finding solution of a problem. It comprises the defining and redefining of problem formulating hypothesis, collection and evaluating data, making detection and reaching conclusion. This research consists of following element:

- • Research Design
- • Sampling Design
- • Sampling Universe
- • Sampling Unit
- • Sample Size

An investment is an asset or item acquired with the goal of generating income or appreciation. In an economic sense, an investment is the purchase of goods that are not consumed today but are used in the future to create wealth. In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or will later be sold at a higher price for a profit.

The project has been titled —A study on Comparative study of investments in mutual funds v/s ULIPs with reference to Ulhasnagar city, As the titled indicates, it is an attempt to study investment behaviour towards mutual funds and ULIPs on various factors liquidity, returns, safety of funds, taxability, flexibility, ease of choice etc.

The project was carried out as per the steps of Marketing Research. The well supportive objective of Research Methodology were set for the study. To meet the objectives primary research was undertaken. The data collection approach adopted was experimental research & survey research. The instrument used for the data collection was observation & questionnaire. The target respondents were the investors and perspective investors, with the sample size of 50 for the study. Tables & charts were used to translate responses into meaningful information to get the most out of the collected data. Based on those the inferences have been drawn with peer supportive data.

2.1 Objectives of the Study:

The main objective of this study was as to identifying the factors which influence the investment behaviour with regard to mutual funds and ULIP products. The following objectives were as secondary objectives such as,

- To find which investment option proves to be better.
- To scan the investors behavior in area of Ulhasnagar
- To determine which investment options are mostly preferred by investors.
- To identifying the factors which influence the investors behavior while taking investment decisions.
- To compare the ULIP and Mutual fund investment on 7 parameters. (liquidity, flexibility, returns, risk factor, cost to be incurred, taxability of income and ease of choice)
- To study the preferences of the investors between mutual funds and ULIPs.

2.2 Hypothesis

Investment Behaviour explores the relationship between competing demographic factors, personal awareness and perceived attitudes to risk in shaping the behaviour of individual investors while making investment decisions.

H1: There is a significant impact of taxability on income of investments.

H2: There is a significant association between liquidity and returns of investments

H3: There is a significant impact of various factors like flexibility and ease of choice while taking investment decisions.

H4: There is significant association between risk and returns of investment options

H5: There is significant association between tenure of investments and returns.

2.3 Scope of study

The study of the subject **investment behaviour** enables marketers to understand and predict the behaviour of an investor. It is concerned not only with what are investors need like liquidity, flexibility, returns, risk bearing capacity but also safety and taxability of investment. So, before embarking on further, it is essential for us to understand what investor's needs are.

2.4 Limitations of the study

- Responses may vary as some of people did not want to come with real answer.
- Sample size is limited to 50 responses only.
- In the project, nonrandom sampling has been used which is a non-probability sampling method; it therefore does not provide estimates of precision.
- Personal bias of respondents limits the scope of study.
- Survey is conducted only in Ulhasnagar hence results may not be generalised.

2.5 Significance of the study:

In this competitive world investors need to park their money in efficient manner. So an investors need to take decisions while making investments in various options available in the market. Hence, a detailed study on Investment in Mutual Funds and ULIPs has become a necessity to understand investor's needs and behaviour. It will also help to understand risk taking ability of investors and study on various factors like taxability, flexibility, cost of investments, etc.

2.6 Sample Size:

Sample size is a subset of the target population and it is used to represent the population under the study (Kothari, C. R., 2004) This means that if the sample is carefully selected and if the sample is optimum to fulfil the requirements of efficiency, representative, reliability and flexibility then the information gathered from the sample can be used to generalize the general population. The sample size for the present study is 50 respondents from area of Ulhasanagar.

Sampling Method: Non-probability Convenience Method

Since the study is restricted to investors and perspective investors from the area of Ulhasnagar city and according to the convenience randomly they are being picked so sampling method is used in this study is Random Convenient Sampling.

Sample size : 50 respondents

Sampling Method : Random Convenience sampling

Sample Unit : Investors and Perspective Investors from Ulhasnagar

Measuring Tools : Questionnaire

Research instrument & tools of data analysis

A questionnaire is a research instrument consisting of a series of questions (or other types of prompts) for the purpose of gathering information from respondents. The questionnaire was invented by the Statistical Society of London in 1838.

Although questionnaires are often designed for statistical analysis of the responses, this is not always the case.

Questionnaires have advantages over some other types of surveys in that they are cheap, do not require as much effort from the questioner as verbal or telephone surveys, and often have standardized answers that make it simple to compile data. However, such standardized answers may frustrate users. Questionnaires are also sharply limited by the fact that respondents must be able to read the questions and respond to them. Thus, for some demographic groups conducting a survey by questionnaire may not be concrete.

2.7 Data Collection

Source - Primary & Secondary data

Any research requires two types of data i.e. primary data & secondary data. Primary data has been used abundantly for the study. Well-structured questionnaires were prepared & the survey was undertaken. Feedback for the display has been taken by asking questions & observations has also done to gather primary information. There is also a use of secondary data, collected from the various journals, books, & websites & from store managers.

There are two types (sources) for the collection of data:

(I) Primary Data (2) Secondary Data

Primary Data: The primary data are the first hand information collected, complied and published by organization for some purpose. They are most original data in character and have not undergone any sort of statistical treatment. Example: Population census reports are primary data because these are collected, complied and published by the population census organization.

Secondary Data: The secondary data are the second hand information which is already collected by someone (organization) for some purpose and are available for the present study. The secondary data are not pure in character and have undergone some treatment at least once. Example: Economics survey of England is secondary data because these are collected by more than one organization like Bureau of statistics, Board of Revenue, the Banks etc.

Primary data – Field Survey

Secondary Data – Various websites

Area of Research - Ulhasnagar

Research approach - Survey method

Methods of Collecting Primary Data : Primary data are collected by the following methods :

I) Personal Investigation: The researcher conducts the survey and collects data from it. The data collected in this way is usually and reliable. This method of collecting data is only applicable in case of small research projects.

2) Through Investigation: Trained investigators are employed to collect the data. These investigators contact the individuals and fill in questionnaire after asking the required information. Most of the organizing implied this method.

3) Collection through Questionnaire: The researchers get the data from local representation or agents that are based upon their own experience. This is quick but gives only rough estimate.

4) Through Telephone: The researchers get information through telephone this method is quick and give accurate information.

Methods of Collecting Secondary Data: The secondary data are collected by the following sources:

1) **Official:** e.g. The publications of the Statistical Division, Ministry of finance, the Federal

Bureaus of Statistics, Ministries of Food, Agriculture, Industry, Labor etc.

2) **Semi-Official:** e.g. State Bank, Railway Board, Central Cotton Committee, Boards of Economic Enquiry etc.

3) Publication of Trade of Associations, Chambers of commerce etc.

4) Technical and Trade Journals and Newspapers.

5) Research Organizations such as Universities and other institutions.

Difference between Primary and Secondary Data: The difference between primary and secondary data is only a change of hand. The primary data are the first hand data information which is directly collected form one source. They are most original data in character and have not undergone any sort of statistical treatment while the secondary data are obtained from some other sources or agencies. They are not pure in character and have undergone some treatment at least once.

According to the need of the research and the reliability of data, both primary and secondary sources were used to collect data. Primary data are the data collected from original sources that were previously unknown. These data are collected particularly for the research project (Saunders, Lewis, & Thornhill, 2012). It can be collected by various methods. For this research, primary data were collected through Questionnaire from 50 respondents.

2.8 Statistical tools used for data presentation

The main statistical tools used for the analyses of data in this project are: (1) Pie Charts, (2) Bar Diagrams.

Chapter 3

Literature Review

A literature review is a comprehensive summary of previous research on a topic. The literature review surveys scholarly articles, books, and other sources relevant to a particular area of research. The review should enumerate, describe, summarize, objectively evaluate and clarify this previous research. It should give a theoretical base for the research and help you (the author) determine the nature of your research. The literature review acknowledges the work of previous researchers, and in so doing, assures the reader that your work has been well conceived. It is assumed that by mentioning a previous work in the field of study, that the author has read, evaluated, and assimilated that work into the work at hand.

A literature review creates a "landscape" for the reader, giving her or him a full understanding of the developments in the field. This landscape informs the reader that the author has indeed assimilated all (or the vast majority of) previous, significant works in the field into her or his research.

3.1 Mutual Funds

Dr. K. Veeraiah and Dr. A. Kishore Kumar (Jan 2014), conducted a research on Comparative Performance Analysis of Select Indian Mutual Fund Schemes. This study analyzes the performance of Indian owned mutual funds and compares their performance. The performance of these funds was analyzed using a five year NAVs and portfolio allocation. Findings of the study reveals that, mutual funds out perform naive investment. Mutual funds as a medium-to-long term investment option are preferred as a suitable investment option by investors.

Dr. Ranjit Singh, Dr. Anurag Singh and Dr. H. Ramananda Singh (August 2011), have done research on Positioning of Mutual Funds among Small Town and Sub-Urban Investors. In the recent past the significant proportion of the investment of the urban investor is being attracted by the mutual funds. This has led to the saturation of the market in the urban areas. In order to increase their investor base, the mutual fund companies are exploring the opportunities in the small towns and sub-urban areas. But marketing the mutual funds in these areas requires the positioning of the products in the minds of the investors in a different way. The product has to be acceptable to the investors, it should be affordable to the investors, it should be made available to them and at the same time the investors should be aware of it. The present paper deals with all these issues. It measures the degree of influence on acceptability, affordability, availability and awareness among the small town and sub-urban investors on their investment decisions.

Rashmi Sharma and N. K. Pandya (2013), have done an overview of Investing in Mutual Fund. In this paper, structure of mutual fund, comparison between investments in mutual fund and other investment options and calculation of NAV etc. have been considered. In this paper, the impacts of various demographic factors on investors' attitude towards mutual fund have been studied. For measuring various phenomena and analyzing the collected data effectively and efficiently for drawing sound conclusions, drawing pie charts has been used and for analyzing the various factors responsible for investment in mutual funds.

Dr. Mamta Shah (Dec 2012) has done research on Marketing Practices of Mutual Funds. Development of an economy necessarily depends upon its financial system and the rate of new capital formation which can be achieved by mobilizing savings and adopting an investment pattern, be its self-financing (i.e. direct or indirect) where financial intermediaries like banks, insurance and other financial companies come in the picture and mediate between savers and borrowers of funds. In the same way there are different types of investors and each category of investors differs in its objectives and hence it is imperative for investment managers to choose an appropriate investment policy for the group they are dealing with, further managing the investment is a dynamic and an ongoing process.

Rajiv G. Sharma (Aug 2013) has done a Comparative Study on Public and Private Sector Mutual Funds in India. The study at first tests whether there is any relation between demographic profile of the investor and selection of mutual fund alternative from among public sector and private sector. For the purpose of analysis perceptions of selected investors from public and private sector mutual funds are taken into consideration. The major factors influencing the investors of public and private sectors mutual funds are identified. The factors under consideration to compare between perceptions of public and private sector mutual fund investors are Liquidity, Security, Flexibility, Management fee, Service Quality, Transparency, Returns and Tax benefits.

Vibha Lamba (Feb 2014), has done an analysis of Portfolio Management in India. The purpose of present study is to analyse the scope and importance of portfolio management in India. This paper also focuses on the types and steps of portfolio management which a portfolio manager should take to provide maximum returns and minimum risk to his clients for their investments.

G. Prathap and Dr. A. Rajamohan (Dec 2013), have done A Study on Status of Awareness among Mutual Fund Investors in Tamilnadu. Mutual funds have become an important intermediary between households and financial markets, particularly the equity market. Mutual funds have enabled an increasing number of households to enter financial markets and the diversified investment structure of mutual funds and diversified risk contributed tremendously in the growth of mutual funds. It is important to study the awareness of mutual fund among the investors.

Dr. Naila Iqbal (Jul 2013) has studied Market Penetration and Investment Pattern of Mutual Fund Industry in India. Market penetration is a term that indicates how deeply a product or service has become entrenched with a given consumer market. The degree of penetration is often measured by the amount of sales that are generated within the market itself. A product that generates twenty percent of the sales made within a given market would be said to have a higher rate of market penetration that a similar product that realizes ten percent of the total sales within that same market. Determining what constitutes the consumer market is key to the process of properly calculating market penetration.

Mr. Jay R. Joshi, (Mar 2013), Mutual Funds: An Investment Option from Investors' Point of View. This study is of descriptive type research. The target population will be individual investor in Anand – Vidyanagar area of relatively affluent western State of Gujarat (India). The survey will be based on convenience sampling having 100 investors as sample size. The study will try to identify the consumers' preference for various mutual funds and the main reasons for investment in mutual fund schemes. The study will also try to investigate various factors that investor is thinking before selecting a mutual fund company. Overall, the study is focusing on the behavior of individual investors and hence form a part of behavioral finance area.

Dr. Nishi Sharma (Aug 2012), has done research on Indian Investor's Perception towards Mutual Funds. This paper attempts to investigate the reasons responsible for lesser recognition of mutual fund as a prime investment option. It examines the investor's perception with reference to distinct features provided by mutual fund companies to attract them for investing in specific funds/schemes. The study uses principal component analysis as a tool for factor reduction. The paper explored three factors named as fund/scheme related attributes, monetary benefits and sponsor's related attributes (having respectively six, four and four variables) which may be offered to investors for securing their patronage. The results are expected to provide fruitful insight to mutual fund companies for tailoring their offers suitable to cater the needs and expectations of Indian investors.

3.2 ULIPs

Money Today (2009), The benefits of investing in ULIPs, This article talks about the simple structure and dual nature of unit-linked insurance plans work to women's advantage. For women, who are less interested in complicated financial products, unitlinked insurance plans or ULIPs are good options. For, besides a life cover, they offer advantage of the upside of the stock market. These are long-term products, wherein money is invested in a systematic manner over a period of time. The length of the tenure ensures that the investors enjoy the benefits of compounding. For women, who tend to be passive investors, such a product means they can get the best of both worlds. The product offers the policyholder the sum assured and the fund value, so that she receives at least one, when required. Another advantage of ULIPs is the switch feature. This enables the policyholders to adjust their asset allocation between debt and equity depending on their life stage, risk appetite and the market conditions.

Money Today (2010), Before you invest, This article discusses the essentials one should consider while investing in ULIPS. It talks about the investor, suitable plan choice, features to be chosen, buy the ULIP before 31st March. Writer thinks that the foremost requirement of ULIPs is that the buyer should be willing to invest in equities. If he opts for a debt or liquid fund, the ULIP will lose its edge over a traditional policy. Investor needs to be proactive also. If the buyer doesn't know the basics of the capital market, he should steer clear of ULIPs. ULIPs are insurance plans that cover the risk of death. According to the writer, ULIPs should be ensured for this insurance objective. Also simpler the plan in ULIPs better it is. For features the writer says that choosing long term maturity plan is good investment in ULIPs. Also it`s a good idea to choose a plan that gives you the flexibility to increase or decrease the risk cover any time during the term of the plan. Due to changes in direct tax code rules. ULIPs are now considered as tax saving investment. ULIPs will emerge as the best instrument for financial protection, covering a wide gamut of financial needs. including wealth generation.

Money Today (July 2010), Cheap and Better, This article details the new regulatory changes in ULIPs and investment benefits to the investors. It explains that, the Insurance Regulatory and Development Authority (IRDA) imposed a limit on the charges by capping the difference between the gross yield and net yield of a ULIP to 2.25-3 per cent. The gross yield is what a ULIP would earn if no charges are deducted, while the net yield is what it would earn after all charges are deducted. According to the writer if the difference between the two yields is capped at 3 per cent, it means insurance companies will have to reduce the charges on ULIPs or distribute them evenly over the term of the plan. To do this, they would also have to launch longer duration plans. Right now, 10-15 years is the norm, but the change might lead to the launch of 25-30-year plans. The writer also makes it clear that lower costs are only one of the several changes that have made ULIPs more attractive and income from all ULIPs bought before the DTC comes into effect will be tax-free. He further explains about the other major 33 investor-friendly proposal - the cap on surrender charges. Till now, besides the heavy deductions in the initial years, ULIPs also levied fat surrender charges. These acted as a strong deterrent for anyone attempting to surrender in the first three years. So, instead of surrendering their policies, most customers just allowed their ULIPs to lapse and waited for the lock-in period of three years before withdrawing the balance. The quantum of the charge and the method of computation also varied across insurers. Surrender charges were either levied as a percentage of the paid up premium or as a percentage of the fund value. (Money Today, July 2010).

He further discusses about the standardization of the surrender charges and the imposed limit. According to him, this helps because the investor gets a clear picture at a glance and comparing plans becomes easier. However, there is no reason for elation. ULIPs are a long-term investment and surrendering them early is not a good idea. Moreover, most ULIPs still have high upfront charges and would probably give negative returns in the first three years. Add to this the surrender charges and the disincentive to surrender is almost as strong as before. About the minimum lockin period of three years for ULIPs to be increased to five years he thinks, on the face of it, this seems an unfriendly move for the investor as it curbs the liquidity for the policyholder. But this actually helps investors by cutting down on chances of miss-selling. The lure of high commissions often motivates unscrupulous agents to push ULIP investors to stop paying premiums and withdraw the amount after three years. This is a costly strategy for the investor because he has already suffered high charges levied in the initial years. By increasing the minimum lock-in period to five years, IRDA has aligned ULIPs with a long-term horizon. Greater transparency will come due to regulation of putting commission details by the agents. In its zeal to expand insurance coverage, IRDA also proposes to make it compulsory for unit-linked pension plans to offer life or health cover. According to the writer this is bad news for investors. A compulsory mortality charge in the pension plan will reduce the amount of investment flowing into retirement savings. Till now, pension plans were cheaper than ULIPs because they didn't have an insurance component. If the proposal goes through, pension plans will become just as costly. (Money Today, July 2010)

Varma, T. (2010) in her article 'A ULIP with 100 per cent allocation is a myth' presents an excerpt from interview of Andrew Cartwright, Chief Actuary of Kotak Life Insurance, in which he tells why unit-linked insurance plans are a hit among policyholders in India. According to him, insurance has various advantages over other products, including the flexibility to switch investments and realise gains without tax implications. Unit-linked insurance policies offer a transparent approach along with several investment choices. Unlike traditional endowment plans, most ULIPs do not offer guaranteed returns, but they score in terms of tax advantages and net yield. All insurance companies have adequate disclosures in place, but a 100 per cent allocation plan claimed by ULIP is a myth. Although all costs are stated upfront, it is not easy to compare policies based on cost as it can be expressed in many ways. The code will reduce the advantages of investments in general, but there is no indication that it will happen retrospectively. In India, investment in insurance is mainly driven by tax savings. Earlier, investments were predominantly in endowment plans, but with the introduction of ULIPs and the interest in equities, many people are investing in this category too. Unlike the international trend, where much of the investment is in pension products, in India it is limited as the taxation of these products is not so conducive. Two-thirds of the maturity proceeds are taxed irrespective of how they are withdrawn, and contributions are exempt from tax only up to Rs 1 lakh. Talking about the factors that the investor should consider before investing in ULIPs, The most important factor is the reduction in yield, which has been regulated after the new cap on charges. Secondly, investors must buy the ULIP that is most suitable for their objective. Finally, they must consider the level of cover that they need. She says that if the tenure is over 15 years and the investor is proactive in switching between debt and equity, ULIPs can be a rewarding option. It states a rule that funds give better returns because they don't have high charges like ULIPs. Then it gives the exceptions to this rule as, if the tenure is over 15 years and the investor is proactive in switching between debt and equity, ULIPs can be a rewarding option. They offer insurance, investment and tax-free returns. ULIP income is taxfree while there is tax on capital gains from stocks. ULIP investors are free to switch their corpus from one option to another. ULIPs also provide minimal life insurance cover to investors. (Varma, T., 2010).

Krishnamurthy (2008) in his article 'The ULIP Puzzle' talks about a common debate if it is better to have one product that does many things or have many products that do one thing each. For long, people considered life insurance a multi-function product: it covered your life, it worked as a taxsaving scheme, and it was a savings instrument, but it isn't. There is a debate if ULIPs are mutual funds or insurance products

Because ULIPs are offered by life insurance companies, they are treated largely as insurance plans. However, there are calls for ULIPs to be treated at par with mutual funds, and regulatory changes seem to be levelling the playing field. For instance, after a recent move by the Insurance Regulatory and Development Authority (IRDA), the premium on pure risk term plans has come down by 40%. Lower insurance premiums mean more money for investment. That's definitely good news for investors, because an insurance agent gets a higher commission than a fund distributor, his commission will reduce due to this. Lack of knowledge among investors is a big problem in case of ULIPs. To check mis-selling, IRDA has insisted upon 15 days free look up period and also providing the investors a policy illustration with a 6% and 10% return, standardising all charges across insurers, and a sales guideline that every agent had to follow. One of the great advantages ULIPs have over traditional insurance is the flexibility of switching within plans. The author tells about four common mistakes by ULIP investors: they treat it as investment, not insurance, for short term planning, by ignoring charges and partial withdrawal.

ULIPs are different from traditional insurance policies in terms of risk cover, costs and returns. Insurance is not about tax breaks or returns; it's about protecting your financial dependants. ULIPs offer you the best of both worlds - insurance cover as well as investment returns and tax savings. Since these products are market-linked, it's essential that investors keep tabs on the bourses even if they don't understand completely what's going on. Traditional plans have never offered policyholders the kind of choice and flexibility of investments that ULIPs give and go for low risk investments. Whereas, apart from providing adequate and appropriate life insurance, ULIPs allow you to modify your cover with changing circumstances and external factors. ULIPs differ from traditional insurance structurally also. Instead of fixing the extent of cover, it looks at the annual premium that one can pay and works on the minimum sum assured based on this value. There are three important features that set apart ULIPs from traditional insurance products. Life cover: ULIPs offer a choice between basic death benefit, death benefit plus fund value, or the higher of the death benefit and fund value, various riders and an option to increase the sum assured. Investment. ULIPs are powerful, long-term wealth creation tools since they invest a specified 30 amount in market-linked instruments. Premium: Even though you commit an annual premium for the tenure of the policy, you can make additional premiums during the years that you have surplus money (subject to limits) while retaining the same cover, or by proportionately increasing the cover. (Krishnamurthy, 2008).

The research is conducted to compare the Mutual fund and ULIPs investment on 7 parameters.

- Liquidity
- Flexibility
- Ease of Choice
- Cost of Investments
- Returns on Investments
- Safety of Money Invested

Chapter 4

Data Analysis & Interpretation

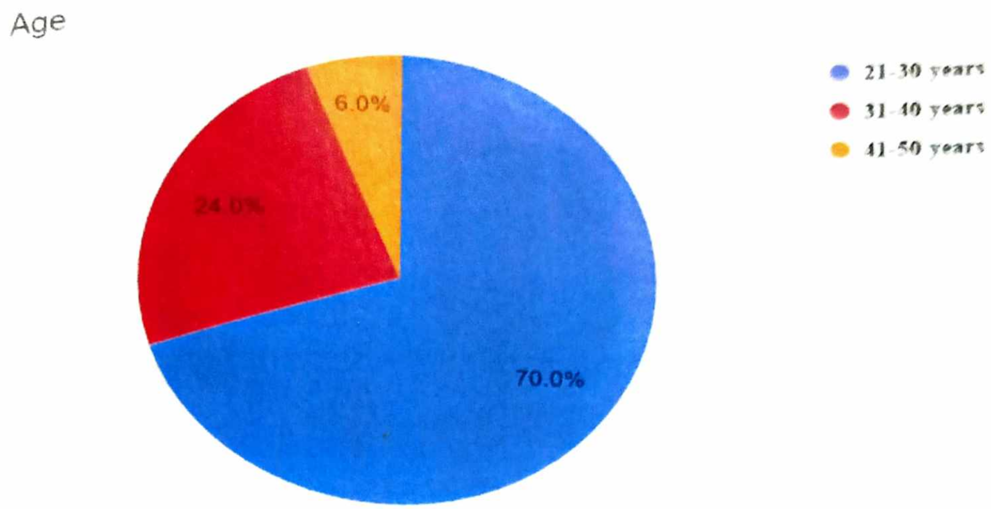
Data analysis is a process of inspecting, cleansing, transforming and modeling data with the goal of discovering useful information, informing conclusion and supporting decision-making. Data analysis has multiple facets and approaches, encompassing diverse techniques under a variety of names, and is used in different business, science, and social science domains. In today's business world, data analysis plays a role in making decisions more scientific and helping businesses operate more effectively.

Data Interpretation is the process of making sense out of a collection of data that has been processed. This collection may be present in various forms like bar graphs, line charts and tabular forms and other similar forms and hence needs an interpretation of some kind. Here we will learn about data interpretation with the help of many important techniques and examples. We will see how we can make sense out of the graphical data and other forms of it.

Analysis helps the reader understand the data by describing general trends in the data and pointing out differences and similarities among data points. Interpretation relates data to the objectives they are supposed to measure, explores the relationships between multiple measures of an educational objective, qualifies, amplifies, draws inferences, and evaluates.

Data analysis and interpretation is the process of assigning meaning to the collected information and determining the conclusions, significance and implications of the findings. It is an important and exciting step in the process of research. In all research studies, analysis follows data collection.

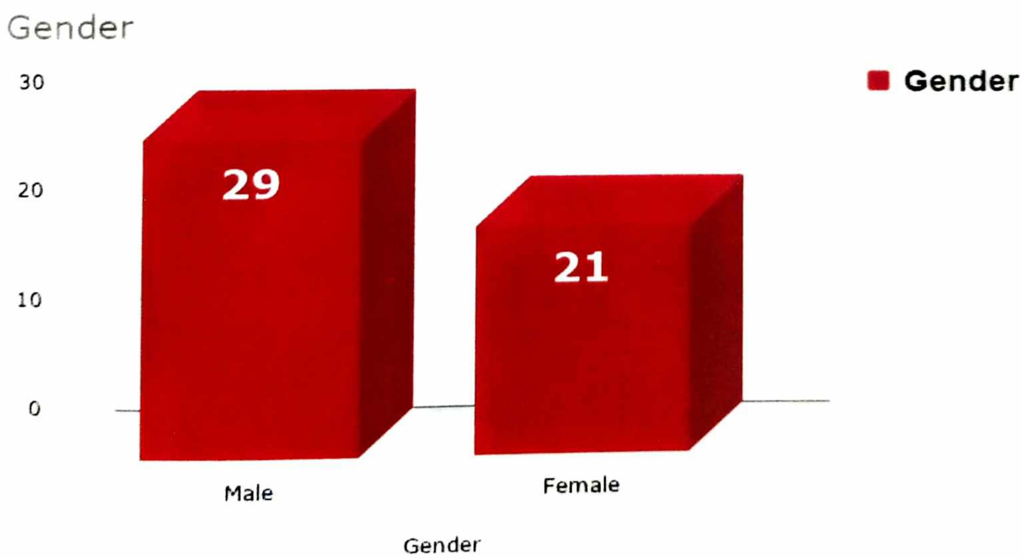
Data analysis and interpretation is a process by which sense and meaning are made of the data gathered in qualitative research, and by which the emergent knowledge is applied to clients' problems. This data often takes the form of records of group discussions and interviews, but is not limited to this. Through processes of revisiting and immersion in the data, and through complex activities of structuring, re-framing or otherwise exploring it, the researcher looks for patterns and insights relevant to the key research issues and uses these to address the client's brief.



Interpretation:

From the data collected from sample size of 50 respondents.

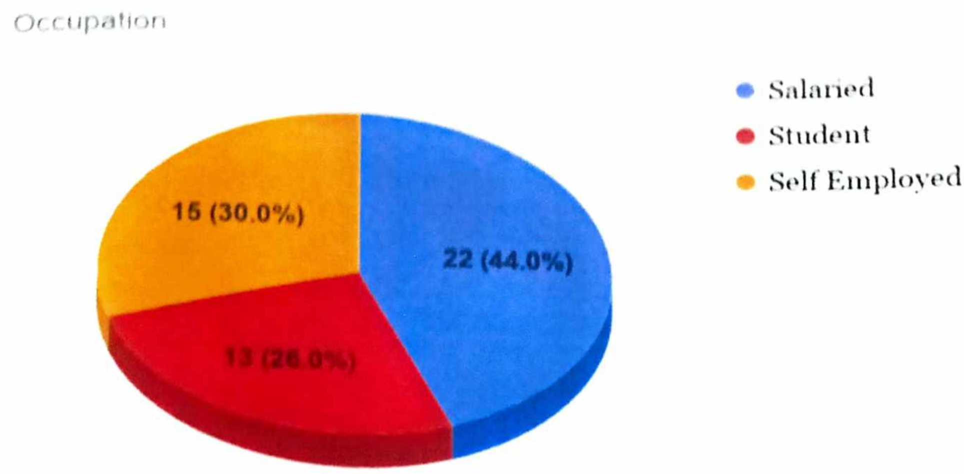
Respondents from age group 21 – 30 years are 35 i.e. 70% of sample population, respondents from age group 31 – 40 years are 12 i.e. 24% of sample population, and respondents from age group 41 - 50 years are 3 i.e. 6% of sample population.



Interpretation:

From the data collected from sample size of 50 respondents.

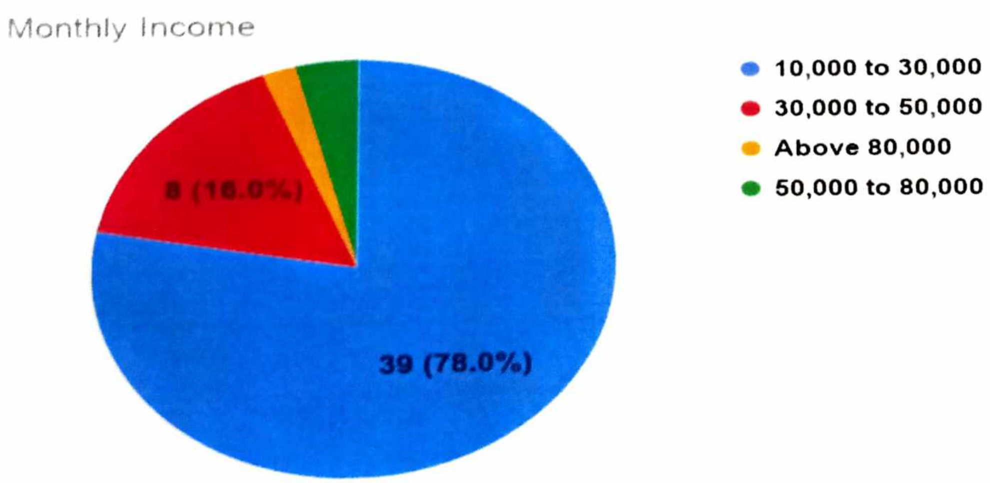
Number of Male Respondents are 29 and number of Female Respondents are 21.



Interpretation:

From the data collected from sample size of 50 respondents.

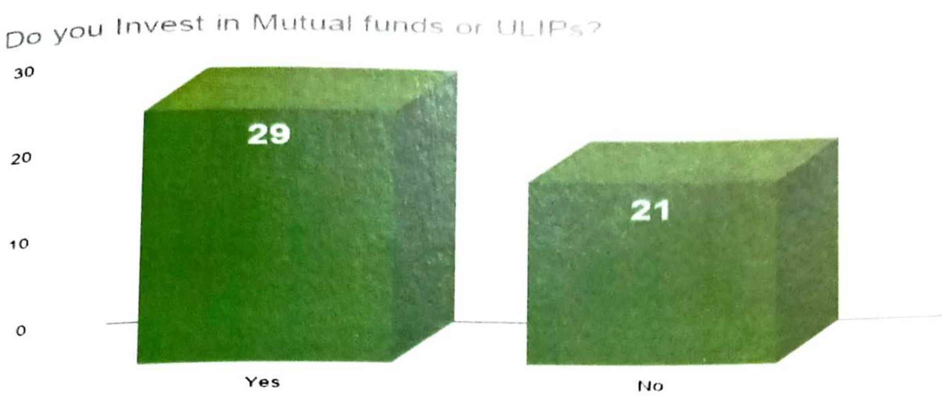
13 respondents are students, 22 respondents are salaried and 15 respondents are self-employed.



Interpretation:

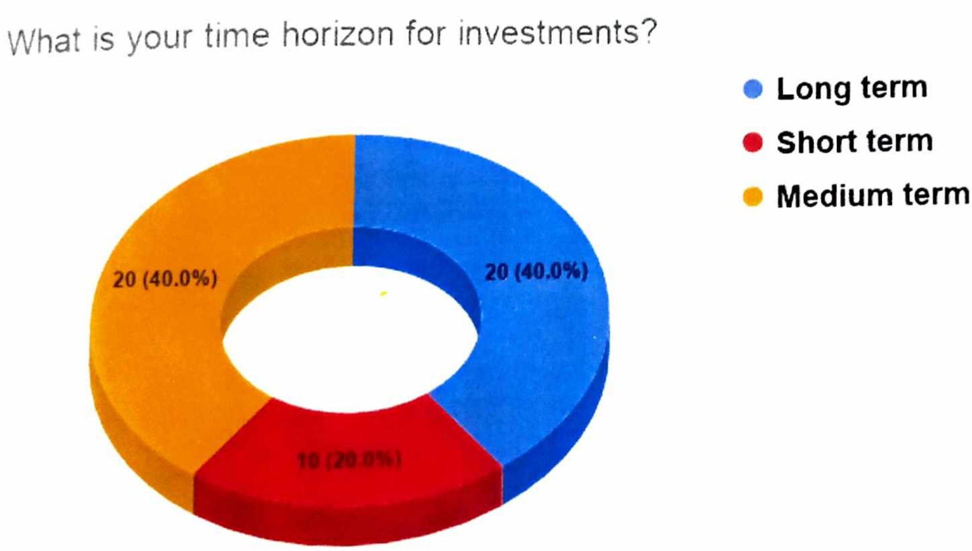
From the data collected from sample size of 50 respondents.

39 respondents are have earnings between ten thousand to thirty thousand rupees per month, 8 respondents are have earnings between thirty thousand to fifty thousand rupees per month, only 3 respondents having income of more than fifty thousand per month



Interpretation:

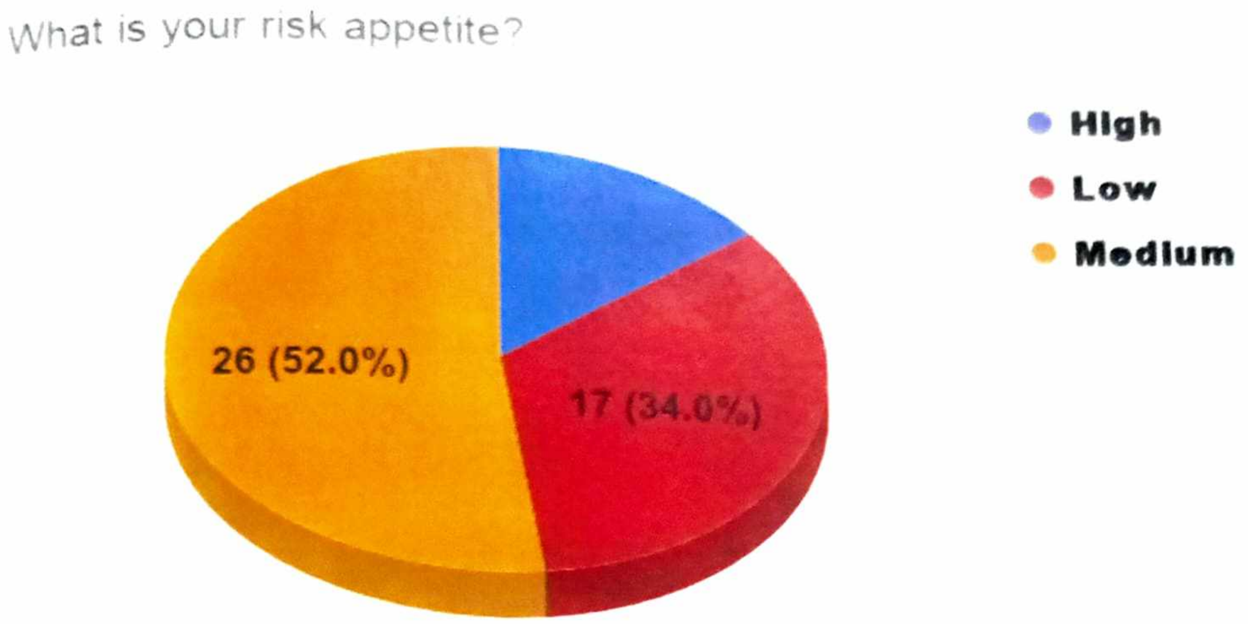
From the data collected from sample size of 50 respondents. 29 respondents said that they make investment in mutual funds or ULIPs whereas 21 respondents still not made any investments in any such options.



Interpretation:

From the data collected from sample size of 50 respondents.

20 respondents said that they prefer to make investments for long term, 20 respondents said that they prefer to make investments for medium term, whereas remaining 10 respondents would like to investments for short term.

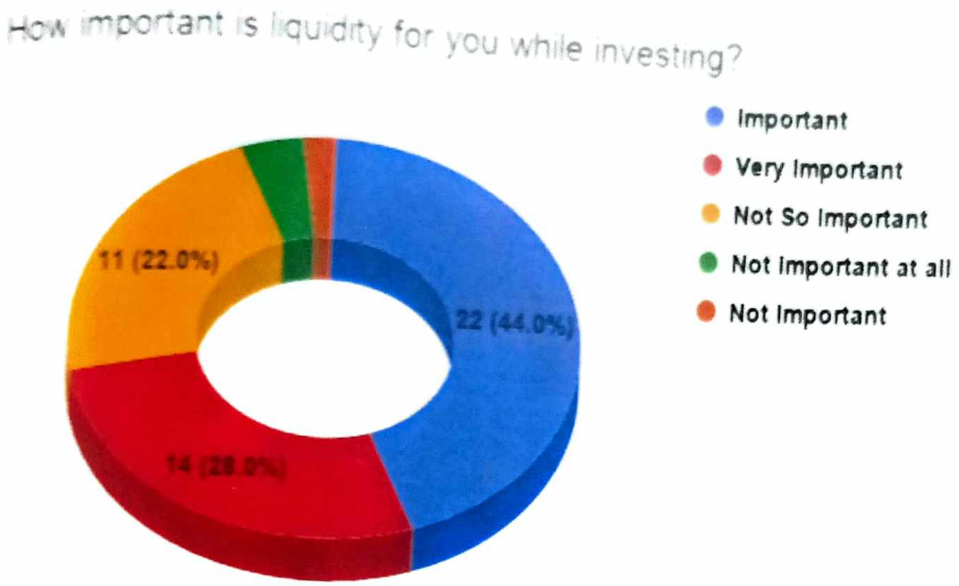


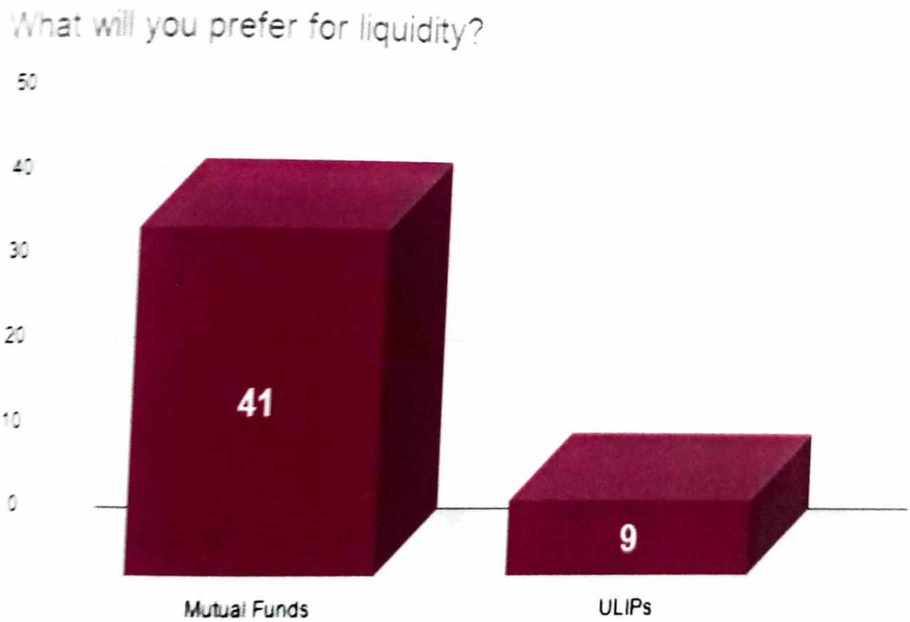
Interpretation:

From the data collected from sample size of 50 respondents.

17 respondents said that they prefer to take low risk, 26 respondents said that they prefer to take moderate risk, whereas remaining 7 respondents prefer high risky investments.

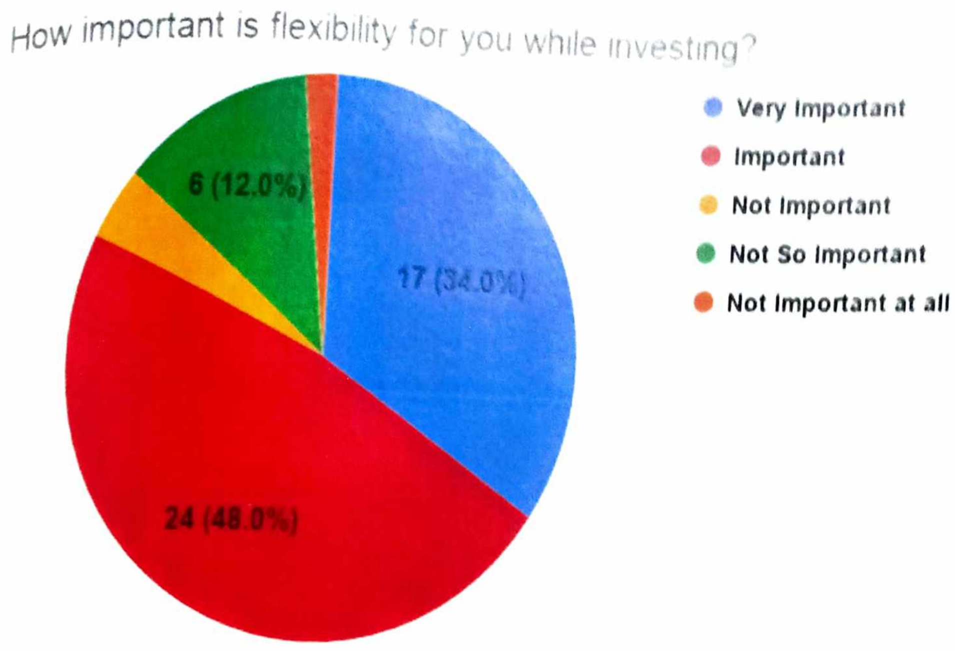
As mutual funds and ULIPs are moderately risky investments, majority of people prefer to park their money in these options.

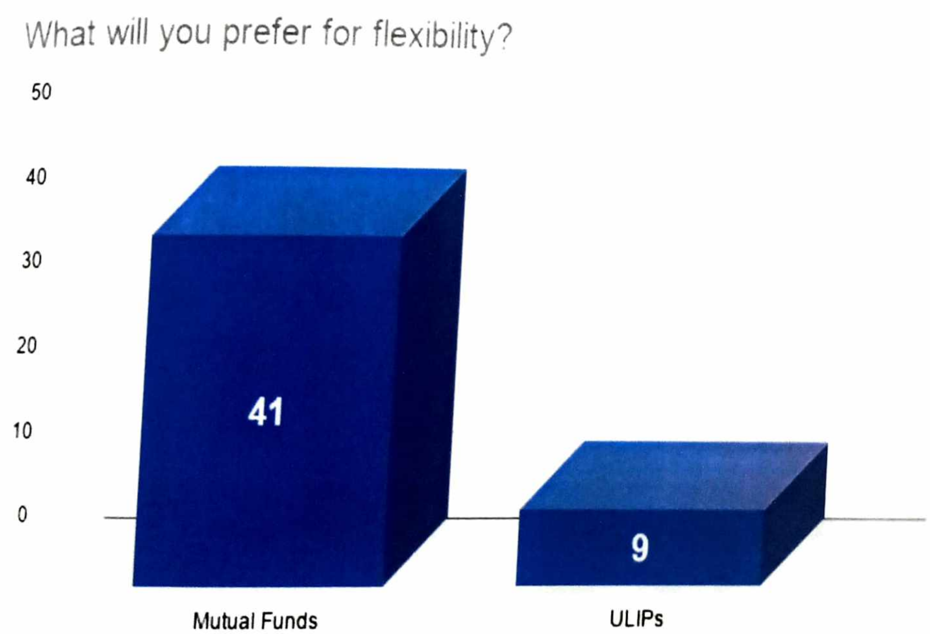




Interpretation:

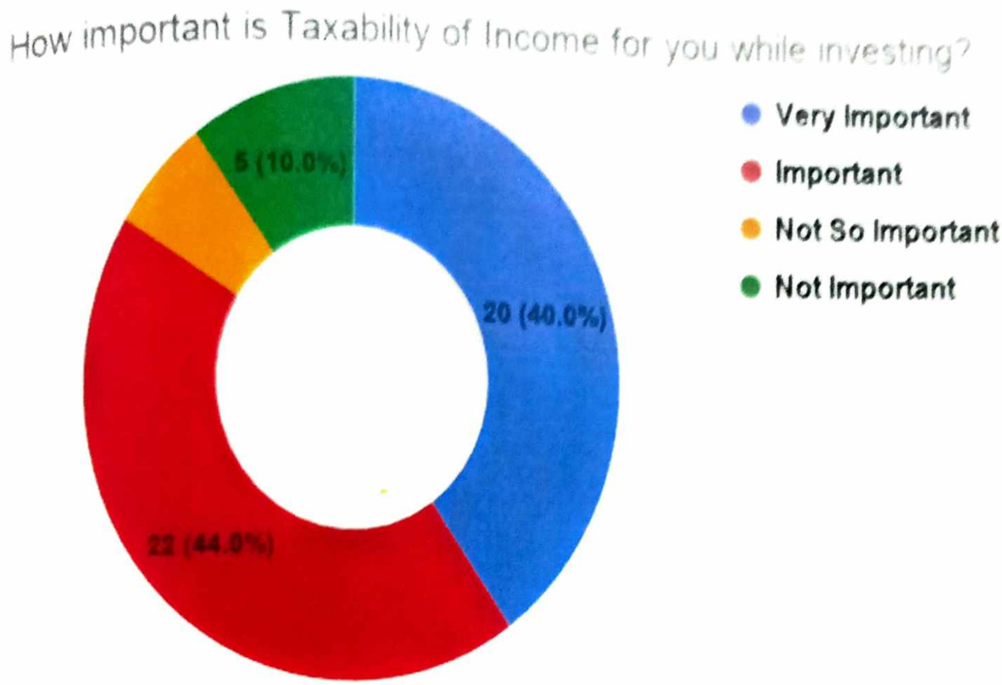
For 72 % of the population, liquidity of investment option is important and very important. 82% of population i.e. 41 respondents prefer mutual fund for liquidity purpose.

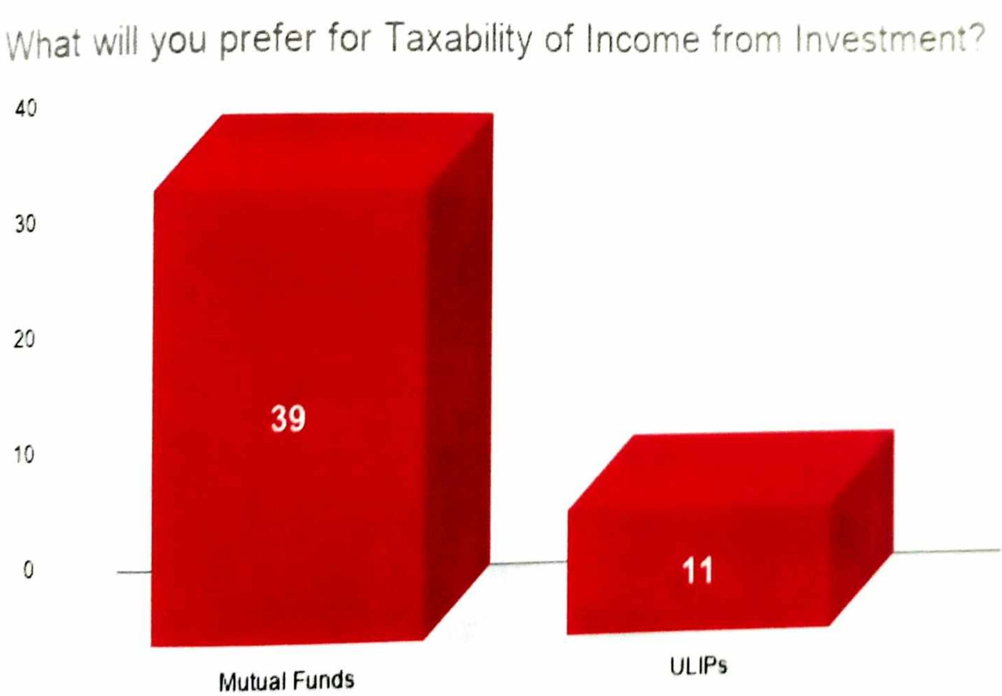




Interpretation:

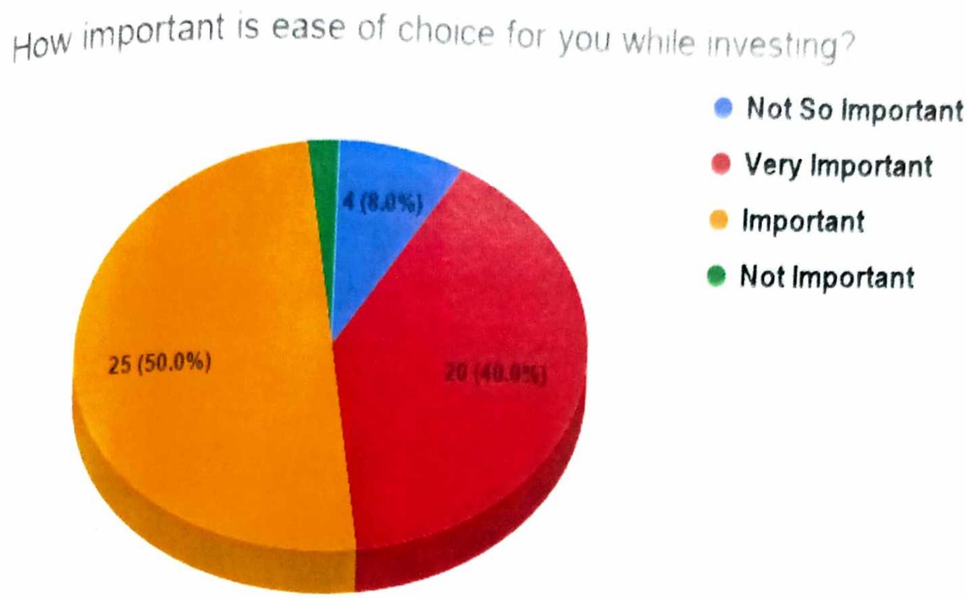
For 82 % of the population, flexibility of investment option is important and very important. 82% of population i.e. 41 respondents prefer mutual fund for flexibility purpose.

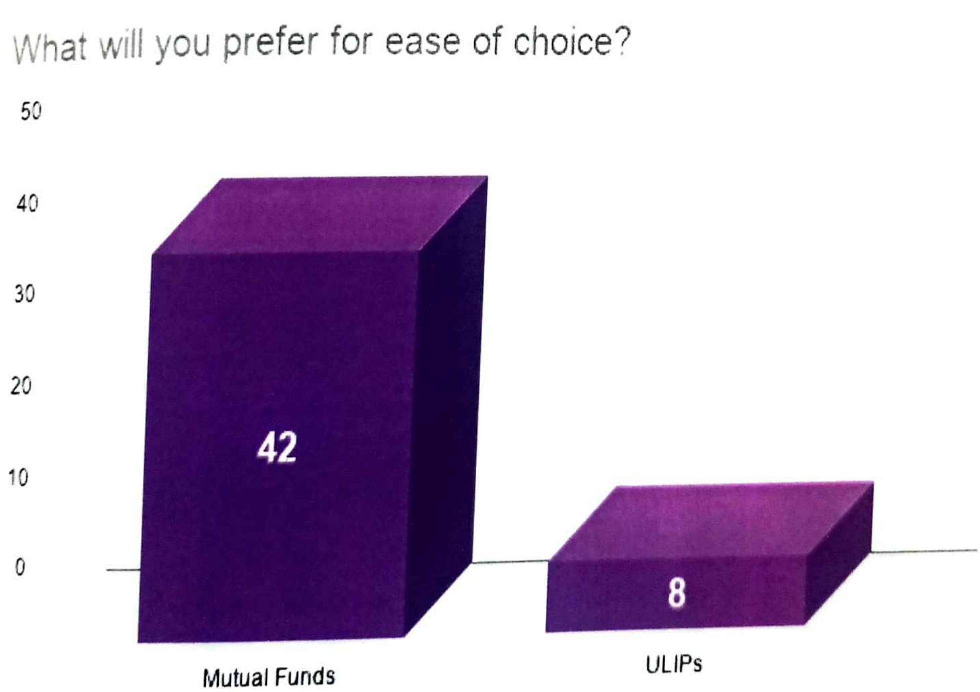




Interpretation:

For 84 % of the population, taxability of income on investment option is important and very important. 78% of population i.e. 39 respondents prefer mutual fund for taxability purpose.

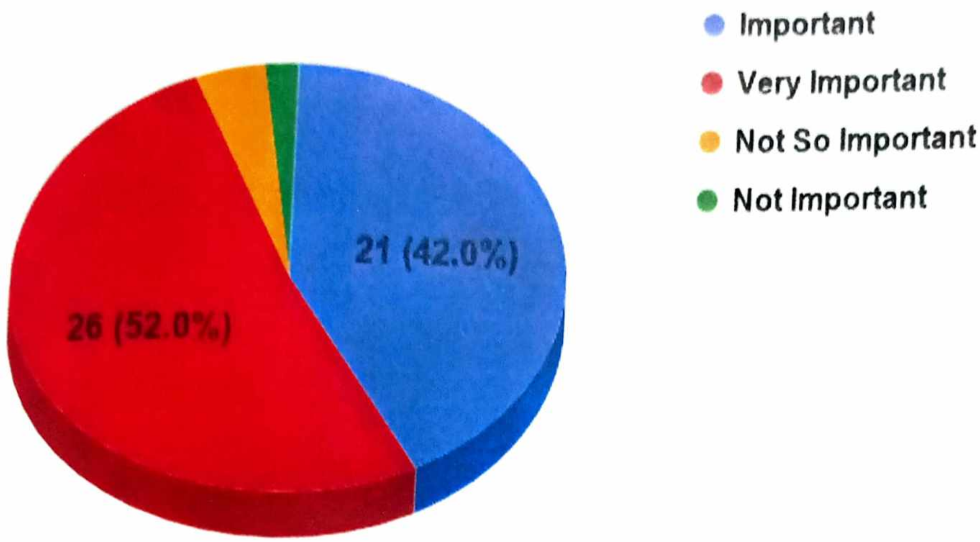




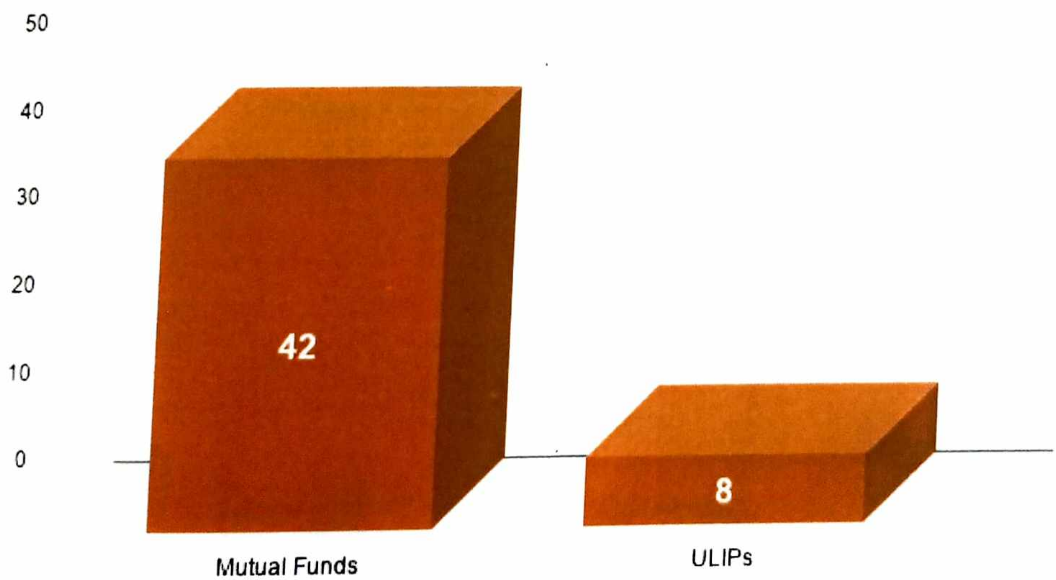
Interpretation:

For 90 % of the population, ease of choice while making investment option is important and very important. 84% of population i.e. 42 respondents prefer mutual fund for ease of choice.

How important is return on investment for you?

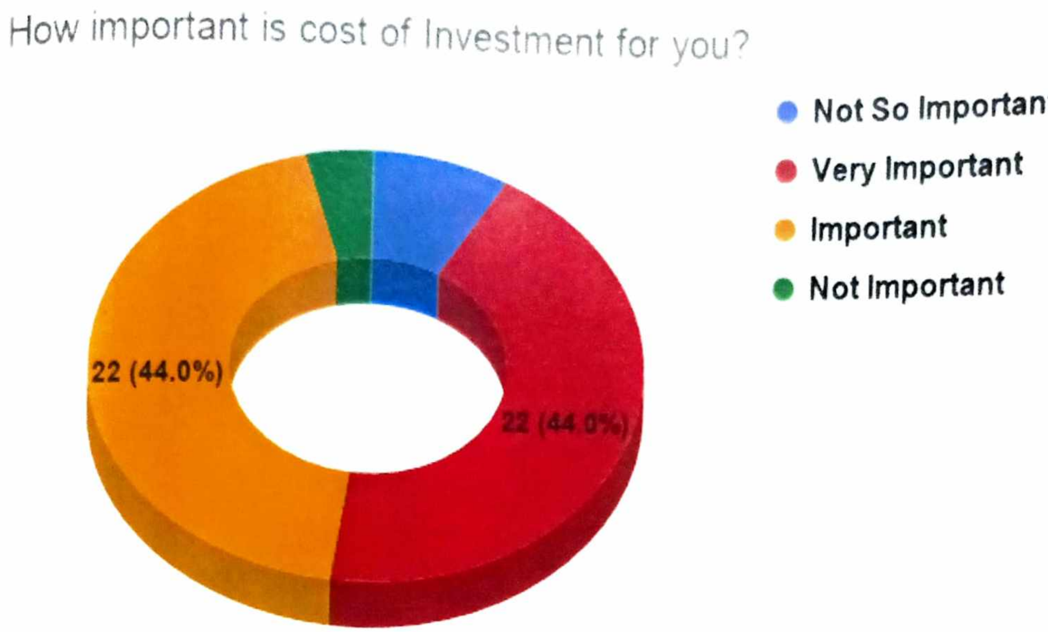


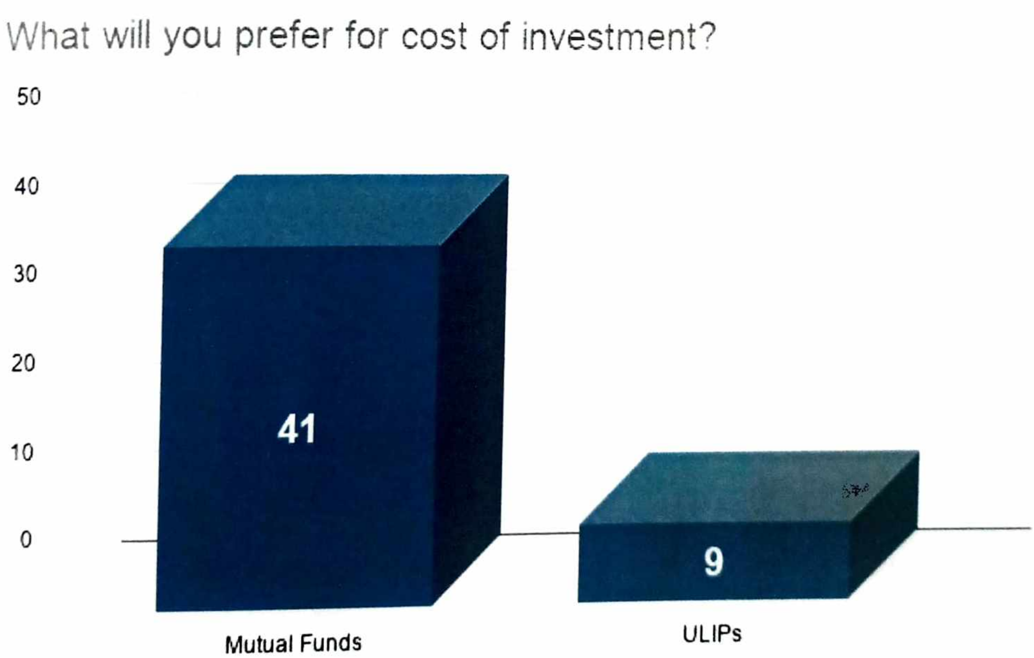
What will you prefer for return on investment?



Interpretation:

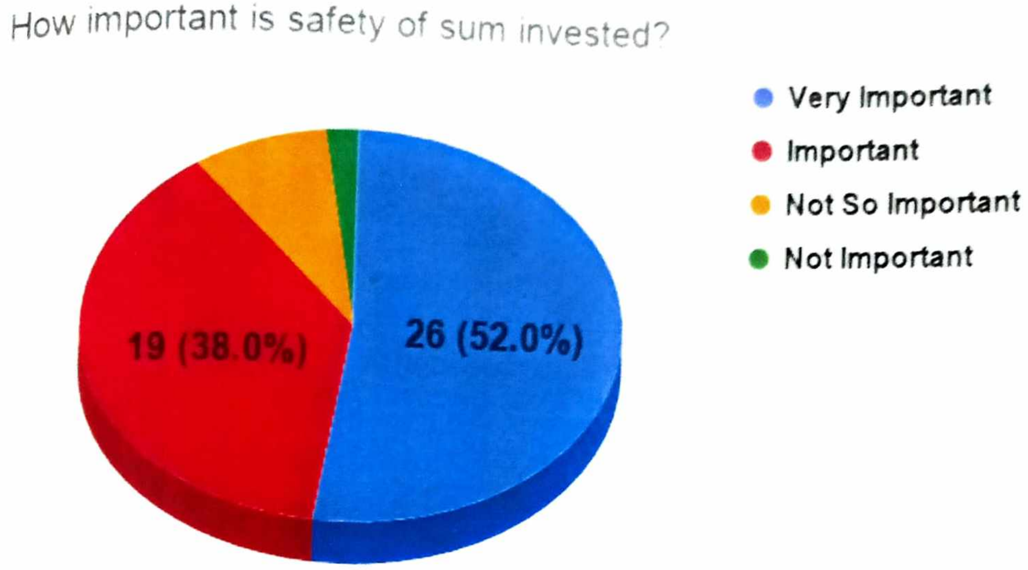
For 94 % of the population, returns on investment option are important and very important. 84% of population i.e. 42 respondents prefer mutual fund for better returns.

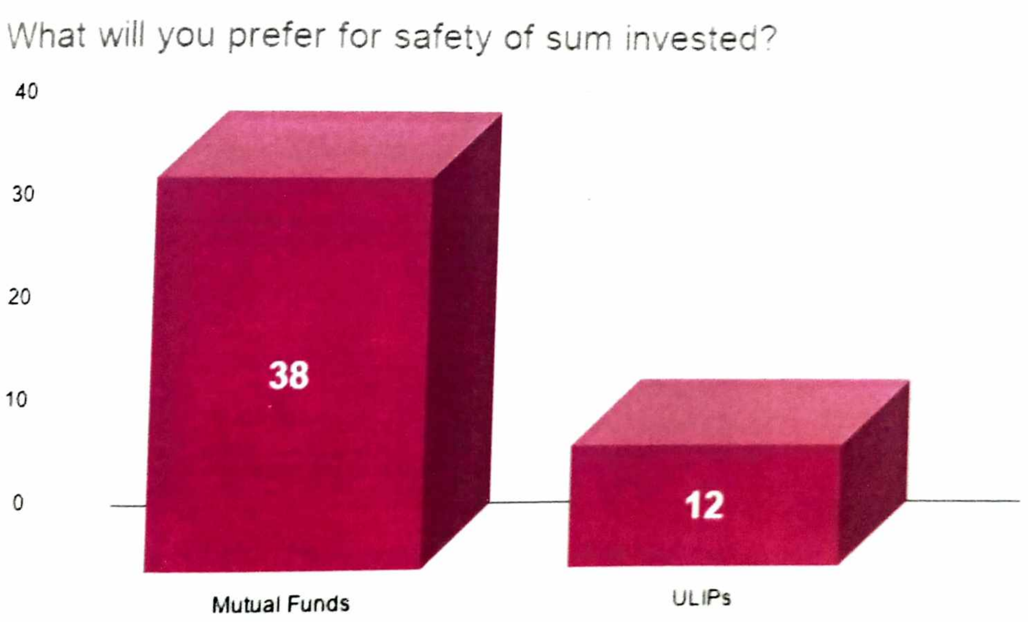




Interpretation:

For 88 % of the population, cost of investment option is important and very important. 82% of population i.e. 41 respondents prefer mutual fund for cost of investments.

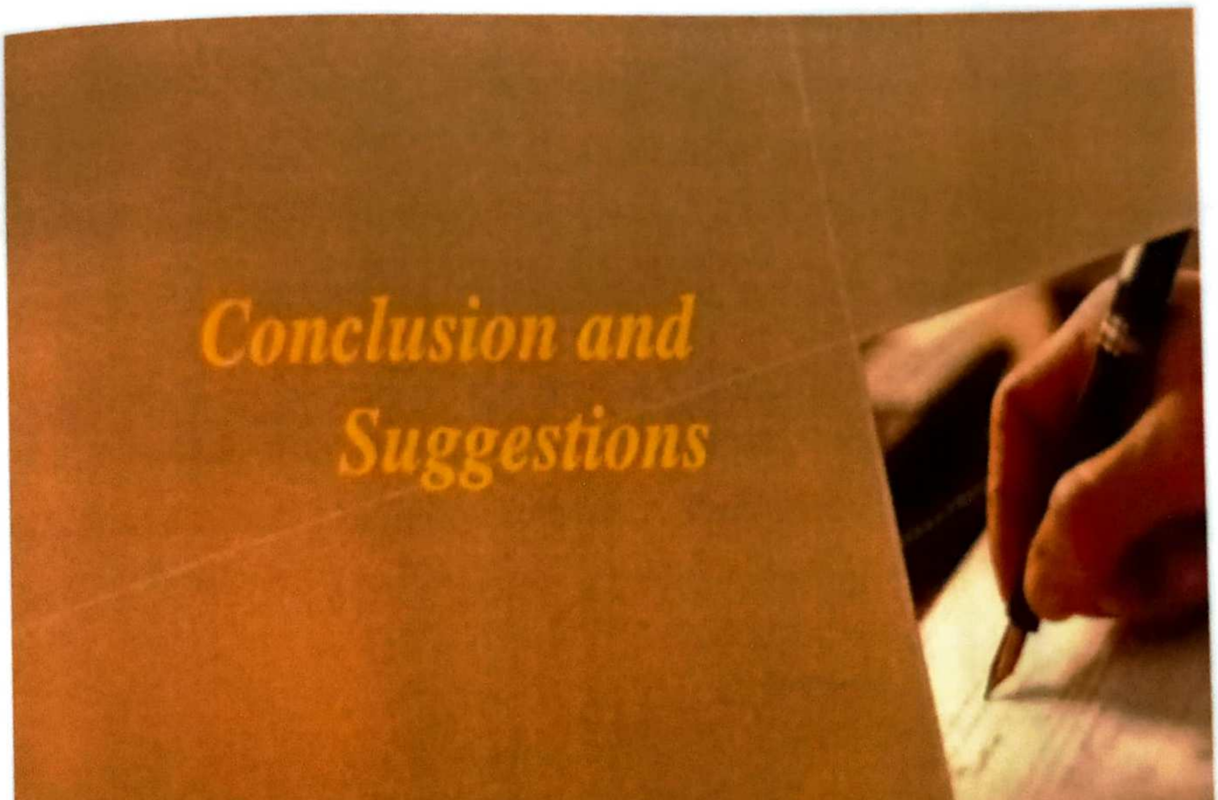




Interpretation:

For 90 % of the population, safety of their money while making investment option is important and very important. 76% of population i.e. 38 respondents prefer mutual fund for safety of sum invested.

CHAPTER 5



Findings:

Every investment is made with some objective or goal. These goals can be short term or long term. Investment instrument should be chosen such a way that it suits your requirements like liquidity, returns, safety of funds, taxability, flexibility, ease of choice etc. Seven commonly used parameters to evaluate any investment option are as follows

1. LIQUIDITY

A mutual fund totally beats the ULIP on liquidity ground.

While both mutual funds and ULIP are long-term investments, mutual funds provide liquidity. Mutual fund investor can exit any time, and even make partial withdrawals if required. ULIP on the other hand have a five-year lock-in period, after which partial withdrawals can be made. Nonpayment of premium makes ULIP a costlier deal, as you do not get paid on the basis of the Net Asset Value of the year in which you are getting paid. Rather the money you get is based on the Net Asset Value of the year in which you stopped paying the premium. If you stop paying premium before completion of one year of policy period, investor lose all the money invested in the policy. Some people argue that forcing the policyholder to remain invested for at least five years helps develop the saving habit. On the other hand, Mutual fund investors face no such hurdles. Most tend to withdraw investments within 2-3 years. This fickleness is inimical to wealth creation. The longer you remain invested, the higher can be your returns.

2. RISKYNESS OF INVESTMENT

Mutual fund provides the facility to track the portfolio of the fund. ULIP is also open but somewhat complex.

As mutual fund companies provide the investors with platform to monitor the performance of the fund therefore Mutual funds are tracked by several organizations. Investors can have insight of their portfolios, allocation to sectors, market segments and even individual stocks of the portfolio.

Therefore it's easy for an investor to analyze the performance of the fund and thereby ascertaining the risk. As mutual fund investment are quite flexible user can easily switch between poor performing schemes to good performing schemes without incurring extra cost. ULIPs also offer the same platform, but they are not so widely tracked by the institutions and individual investors. Very few investors would know which ULIP fund is best.

3. **COSTS**

Mutual funds charges are very low but some online ULIPs charge even cheaper.

High ULIP charges ended way back in 2010. The cost structures of some new ULIPs are so frugal that they almost compete with the low-cost direct plans of mutual funds. Most online ULIPs don't have policy administration or fund allocation charges. If you don't add the mortality charges, the annual charges of the ULIP from reputed life insurance companies are less than 1.5%. Insurance companies are trying to reduce the impact of the mortality charge. Some insurance companies make an additional contribution to the fund corpus; some companies' pays back entire mortality charges at the maturity by charging high premiums. Equity oriented mutual funds are costlier than debt oriented mutual fund. Equity oriented fund can charge up to 2.5% while ULIP can charge up to 1.35% + mortality charges. This makes mutual funds costlier than ULIP at first look.

4. **EASE AND CHOICE**

Mutual fund investor can easily switch between varieties of schemes. ULIPs are available with very few choices, and take time.

Once the KYC formalities are done, you can invest online in any mutual fund without any additional paperwork in few minutes even without the help of any adviser. ULIP on the other hand don't have that luxury. Even after filling the form online and making the payment, the paperwork needs to be done offline. As ULIP provides life cover formalities can include medical tests and even scrutiny of the income tax return of the individual if he has sought a very large life insurance cover. Mutual funds also offer a wider choice to investors. Those looking for stable growth can go for large-cap funds and the more adventurous investors can invest in mid-cap and small-cap schemes. In contrast, some insurers offer a wide bouquet of ULIP funds, but mostly the choice is between equity, debt and liquid funds.

5. **FLEXIBILITY**

Investors can switch funds or stop investing, but ULIP buyers are stuck with them.

A ULIP is a multi-year commitment. The buyer has to keep paying the premium for the full term of the plan. Also, investing in a ULIP is like buying a closed-ended fund that will mature in 15-20 years. ULIP investors are stuck with the same insurer and policy for the full term. In the worst case if the investor could not pay the premium it leads to loss of money invested, pre- dated NAV returns, returns after deducting all the charges, no life cover, surrender charges.

In contrast, there are no such constraints on a mutual fund investor. He can easily shift from a non per-forming scheme to a better fund. He can exit anytime he wants or remain invested for the long term. He can make partial withdrawals or make additional investments without any hitch. ULIPs also allow additional top-up investments, but these are treated as single premium payments and mortality charges are deducted from the amount.

The switching facility in ULIPs provides some flexibility. The investor can switch from equity to debt and vice-versa without incurring a tax liability. Insurers claim this makes ULIPs a good rebalancing tool.

6. **RETURNS**

In the long run mutual funds always pay better.

In ULIP whole of your premium not get invested in fund units, some part of premium goes towards mortality charges that is for the insurance cover. It means if you pay Rs.10 only 6 to 7 rupees will be invested in fund and remaining 3 to 4 rupees will be considered as your insurance premium, which will be paid to you only if you claim insurance. Even if we keep aside the mortality charges and examine only the NAV-based returns, mutual funds score over ULIPs. Data from some studies shows that ULIP returns are 100-300 basis points lower than those of mutual funds. The average large-cap ULIP fund grew 15.51% in the past one year whereas the average large-cap mutual fund rose 18.83%.

This gap in performance can have a big impact in the long run of 15-20 years.

7. TAXABILITY

ULIP always had the edge over mutual fund in taxability, but the new LTCG tax has swelled the effect.

As ULIP capital gains are tax free under Sec 10(10d), it makes ULIP a better deal in terms of taxability. Even before the budget proposed to tax long-term gains from stocks and mutual funds,

ULIPs had an edge over equity mutual funds. If balanced schemes or equity mutual funds were held for less than one year, the short-term capital gains were taxed at 15%. After the new LTCG tax kicks in from 1 April mutual fund investments will become even more costly. Gain from balanced and equity funds will be taxed at 10% but income from ULIPs will be tax free.

The tax-free advantage of ULIPs extends beyond equity funds to the fixed income space. ULIPs not only offer equity funds but also debt and liquid fund options to investors. Income from fixed deposits is taxed at the marginal rate while LTCG from debt funds are taxed at 20% after indexation. But gains from ULIPs are tax free.

Suggestions/ Recommendations:

- Like all securities, Mutual Funds and ULIPs are subject to market, or systematic, risk. This is because there is no way to predict what will happen in the future or whether a given asset will increase or decrease in value. So investors must take decisions wisely.
- People in India prefer risk as a major factor, so there should be continuous rebalancing in investments to meet the needs.
- People prefer to have liquidity in their investments so that they can withdraw their amount as an when they require.
- Fund managers should maintain transparency in making decisions as they are responsible for investing pooled money in various instruments available in the market.
- Returns from Mutual funds are exempt u/s 10 (35) whereas income from ULIPs are tax deductible. So investors should take benefit of the same by investing in these two options
- The fund managers must constantly study the market environment and find new opportunities to maximize the wealth of investor community.
- Insurance and investments must be treated differently
- Consumer awareness must be created for ULIP's
- Should not be mis-sold as investment products but 'risk cover' products
- Relationship building must be focused at, rather than pitching in the wrong product. This will create customer loyalty.

Conclusion:

Change is very important and one whose goes which the changing environment always succeeds, that is what I have learnt from the study. The competition has grown too much in the market that the investors are confused in which he /she should invest. The competition is between the traditional methods and modern methods.

This project gives the comparative analysis between Mutual Funds and ULIPs that is:

Mutual Funds and the Unit Linked Insurance Plans are both professionally managed investment plans. ULIP provides life insurance and at the same time provides suitable investment avenues. The policy value is the sum assured plus the appreciation of the underlying assets. It is life insurance solution that provides for the benefits of protection and capital appreciation at the same time. The product is quite similar to a mutual fund in the sense that the investment is denoted as units and is represented by the value that it has attained called as Net Asset Value (NAV), and apart from the insurance benefit the structure and functioning of ULIP is exactly like a mutual fund.

The idea of having insurance and investment conveniently rolled into one-product looks alluring enough and saves the common investor the time and effort to consider different options. However, an investor may build a customized solution for himself separating insurance from his investment needs.

In the case of ULIP, the insurance company deducts charges towards life insurance cover (mortality charges), administration charges and fund management charges from the premium paid by the investor. The balance amount left is used to invest in stocks or bonds or a combination of the two. All premiums paid are eligible for tax break under Sec 88 and come under a lock-in of three years.

The administrative charges levied by the insurance company are quite high during the first few years of the policy. This acts as a dampener as the returns are affected due to lower levels of funds available for investment, and extra cautious approach by the insurance company towards investing doesn't help either. Whereas, MF comparable administrative charges are very less and they invest their entire holdings in equities quite aggressively in favorable times, thus allowing the portfolio to appreciate rapidly. The higher administrative charges during the initial years erode the returns and make it less attractive when compared to a mutual fund investment for a similar period. ULIPs are not as liquid as mutual funds. The redemption process takes more time as compared to a mutual fund. If one intends to redeem after the lock-in period of three years, he would be at a loss because of higher initial administrative charges.

Portfolio disclosure is another area where MF score over ULIPs and though leading insurance companies do disclose their portfolio on a regular basis, the competitive pressure in the mutual funds industry lead to higher disclosures and investors know exactly where there money is being invested.

Although ULIPs offer certain benefits, which MFs are unable to provide for, for example certain ULIPs with a capital guarantee. This product protects individuals from a potential market slide. In case of a market slide, the insurance company purports to at least return the premium paid by the individual. This is unlike investments in a mutual fund scheme where investors are partner to both profits as well as losses incurred by the scheme. Switch in/out from different asset classes is also allowed at no extra cost, and investor can conveniently transfer his investments from an equity scheme to a debt or balanced scheme. The investment amount that an investor pays can also be altered as per his wishes during anytime in between his maturity period. Thus it is better to keep insurance and investment needs separate.

Investing in Mutual Funds can be done systematically. Systematic Investment Plan, Systematic Transfer Plan and Systematic Withdrawal Plan offer greater benefits than lump sum investment. People investing in MFs through SIPs may benefit through Rupee Cost Averaging. Here the average cost of buying units is kept low. It works out to be a disciplined investment practice that takes the guesswork out of timing the markets. It involves investing a fixed amount in the same investment plan at regular intervals say every month or every quarter. The essence of this strategy is that more units are purchased automatically when prices are low and fewer units when prices are high. Over time, this results in the average cost per unit the money investor pays being lower than the average price per unit.

Unlike mutual fund SIPs, which are not long-term by nature, insurance plans cushion immediate market fluctuations as well as long-term market fluctuations varying over investment cycles. And as charges on ULIPs are front-loaded, the benefit on unit values over a 15-year period (or more) is pronounced. If well planned, insurance can work favorably as effective savings tools, especially if investor also factors in the tax benefits. Contributions in to insurance plans provides Section 80C benefits up to Rs 1 lakh invested and, at the time of maturity the proceeds are tax free under Section 10 (10D), making these preferred instruments for many.

Hence it may be concluded that both Unit Linked Insurance Plans and the Mutual Funds are good in their respective domains. Investors should not club their insurance and investment needs. ULIPs offer a better preposition in terms of returns to investors over traditional insurance plans. They cover life and over and above that they help in growing in the money of investors. It is always good that investors start early and select the right insurance-cum-investment plan for themselves and utilize their tax break limit fully.

Mutual Funds are for a different class of investors. People who want to spread out their risk and still earn a handsome return; Mutual Funds would be the right investment avenue. Although no tax breaks are offered, Mutual Funds have a potential to give extraordinary returns that may even compensate for the tax part. But there is a note of caution for the investors that they should constantly monitor their portfolio and the Scheme in which they have invested. Careful monitoring and an intelligent approach could definitely help in earning fortunes.

Bibliography & Webliography:

Books and magazines

Research Methodology

Wealth Management

Standard format of Black Book

ICFAI Journal

Outlook Money Magazine

Monet Today

References

- www.amfiindia.com
- www.investorsguide.com
- www.moneycontrol.com
- www.mutualfundsindia.com

https://acadpubl.eu/hub/2018-118-21/articles/21a/91.pdf

https://www.slideshare.net/Anantha_001/comparitive-analsis-on-mutual-fund-and-ulips-in-kotak-final

https://www.slideshare.net/RohitRanjan35/comparative-study-of-ulip-plan-and-mutual-fund-of-reliance-industries-marketing-1

http://ijamtes.org/gallery/45.%20mar%20ijamtes%20-%20354.pdf

Appendix

Dear respondents, I am Rahul Ludhwani student of second year M.com. Degree as a part of my curriculum, i am required to do project report on Comparative study of Investments in Mutual funds v/s ULIPs with reference to Ulhasnagar city. All responses given by you will be kept confidential and use for academic purpose only.

1. NAME * ______________________

2. Age *

☐ 21-30 years ☐ 31-40 years

☐ 41-50 years ☐ Above 50 years

3. Gender *

☐ Male ☐ Female

4. Occupation *

☐ Student ☐ Salaried

☐ Self Employed

5. Monthly Income *

☐ 10,000 to 30,000 ☐ 30,000 to 50,000

☐ 50,000 to 80,000 ☐ Above 80,000

6. Do you Invest in Mutual funds or ULIPs? *

☐ Yes ☐ No

7. What is your time horizon for investments? *

☐ Short term ☐ Medium term ☐ Long term

8. What is your risk appetite? *

☐ Low ☐ Medium ☐ High

9. How important is liquidity for you while investing? *

- [ ] Not Important at all
- [ ] Not Important
- [ ] Not So Important
- [ ] Important
- [ ] Very Important

10. What will you prefer for liquidity? *

- [ ] Mutual Funds
- [ ] ULIPs

11. How important is flexibility for you while investing? *

- [ ] Not Important at all
- [ ] Not Important
- [ ] Not So Important
- [ ] Important
- [ ] Very Important

12. What will you prefer for flexibility? *

- [ ] Mutual Funds
- [ ] ULIPs

13. How important is Taxability of Income for you while investing? *

- [ ] Not Important at all
- [ ] Not Important
- [ ] Not So Important
- [ ] Important
- [ ] Very Important

14. What will you prefer for Taxability of Income from Investment? *

- [ ] Mutual Funds
- [ ] ULIPs

15. How important is ease of choice for you while investing? *

- [ ] Not Important at all
- [ ] Not Important
- [ ] Not So Important
- [ ] Important
- [ ] Very Important

16. What will you prefer for ease of choice? *

- [ ] Mutual Funds
- [ ] ULIPs

17. How important is return on Investment for you? *

- [ ] Not Important at all
- [ ] Not Important
- [ ] Not So Important
- [ ] Important
- [ ] Very Important

18. What will you prefer for return on investment? *

- [ ] Mutual Funds
- [ ] ULIPs

19. How important is cost of Investment for you? *

- [ ] Not Important at all
- [ ] Not Important
- [ ] Not So Important
- [ ] Important
- [ ] Very Important

20. What will you prefer for cost of investment? *

- [ ] Mutual Funds
- [ ] ULIPs

21. How important is safety of sum invested? *

- [ ] Not Important at all
- [ ] Not Important
- [ ] Not So Important
- [ ] Important
- [ ] Very Important

22. What will you prefer for safety of sum invested? *

- [ ] Mutual Funds
- [ ] ULIPs