

“MUTUAL FUND GROWTH ANALYSIS AND RISK MINIMIZATION”

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Abstract

Mutual fund is the most popular mode of investment at the stock market and its performance evaluation is a topic of immense interest for both investors and academics. This paper provides an overview of the Pakistani Mutual Fund industry and investigates the mutual funds risk adjusted performance using pertinent performance evaluation models. Survivorship bias of mutual fund management company for a span of five years, controlled data of equity and balanced funds is used for the performance evaluation of the fund.

Mutual fund industry in Pakistan is still in developing phase. The investors adopt a conservative approach as is evident from the beta derived from the research paper. This paper examines the performance of mutual funds over the span of five years using Sharpe and Treynor models to analyze portfolio performance and investigates the relationship between the mutual funds and market portfolio (KSE 100 Index). The paper further focuses on the critical ratios relevant to mutual funds namely net asset value, number of shares outstanding and return per unit of risk and how risk is minimized through diversification.

The paper proceeds as follows: Section 1 gives Introduction to the topic. Section 2 provides Theoretical background information. Section 3 presents Literature review on empirical studies. Section 4 contains Statement of Hypothesis. Section 7 provides Research Methodology used in the empirical analysis while Section 5 presents econometric / statistical results. Section 6 summarizes the Result showing on an overall basis funds industry has out performed the market proxy by 0.86 percent. Indicating defensive investment by the investors. Mutual Fund industry's Sharpe ratio is 0.47 as compared to market risk premium of 0.27 per one percent of standard deviation. Hence overall results suggest that mutual funds in Pakistan has growth potentials even though some of the funds had under performed due to inherent problem of non-diversification.

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