

Management of Financial Institutions (MGT604)

Assignment No. 2

Marks: 15

Solution:

A)

The idea of mutual funds is based on pooling of money by the small investors and the contribution is entrusted to mutual fund manager who is qualified and skilled person for ensuring the security and maximum return. The profit and loss belongs to the investors. Broadly speaking mutual fund are of two types; first, the **close ended funds** are established as an investment company for which a fixed amount of capital is contributed by the investors through buying the initial public offer for the first time and later from the stock exchange. Investors can disinvest their share by selling their share in stock exchange at prevailing price. Secondly, the **open ended mutual funds** in which pooled capital is not fixed so the investors are allowed to join and leave the fund on their choice.

B)

Small investors can enjoy the significant investment returns with relatively less risk by investing in mutual funds; Following are the benefits which can be enjoyed by the small investors:

Professional expertise: Average investor hardly has the required knowledge and information about the financial market to manage his investment so, by investing through mutual funds, will provide him the required expertise and management skill.

Diversification: Mutual funds invests in different financial products like equities, debt instruments and money market instruments which reduces the chances of loss and give the freedom to invest in the fund of own choice. **Liquidity:** Money invested in mutual funds can be withdrawn at any time by selling into the stock market or redeeming to fund manager and no fee is charged for this.

Low cost: By investing into mutual fund a small investor can save the cost of hiring the services of a professional unlike the investment in the capital market.

Convenience: Investment in mutual funds facilitates the investors to transfer fund through the telephone and internet so that investors can manage their investment at their place.

C)

Mutual fund has been facing numerous challenges like lack of diversified products, understanding about investors' need, awareness at mass level, volatility of stock market; need to provide competitive returns, low saving and investment in economy, correct information and transparency, proper time to lounge the fund, controlled and strict monitoring of regulatory bodies.

So, the above mentioned challenges should be addressed through providing mass awareness and education about the mutual fund, ensuring ethical business practices in financial market, offering a variety of mutual funds according to investors' need, establishing affiliation with mutual association in other countries, ensuring the correct and transparent information from regulatory bodies, appropriate measure needs to be taken by the Government to stabilize the financial market, appropriate marketing strategies are required to be adopted for targeting various market segments.