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COMPARATIVE ANALYSIS ON OPEN ENDED AND CLOSED ENDED FUNDS

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ABSTRACT

This research compares open-ended and closed-ended mutual funds in great detail with the objective to provide investors important information on the unique characteristics, performance indicators, and suitability of each fund type. Utilising an extensive range of qualitative and quantitative data, the study investigates the subtle differences between various fund types in the mutual fund industry. Analysing critical factors including liquidity, flexibility, cost ratios, volatility of NAV, and exit methods helps determine how each fund type affects risk management and investment results. This study enables investors to make well-informed decisions that are consistent with their risk tolerance and financial objectives by clarifying the trade-offs that are inherent in each fund type and their consequences for portfolio diversification and long-term performance. The study's conclusions also have implications for policymakers, fund managers, and financial advisors since they give practical ideas for enhancing fund offers, client advisory services, and regulatory frameworks in the mutual fund sector. All things considered, this research advances knowledge about both closed-ended and open-ended mutual funds, makes more effective investing strategies possible, and gives investors more confidence to navigate the ever-changing mutual fund market.

1. INTRODUCTION

The mutual funds are a sort of collective investment scheme that is professionally managed and invests money from numerous individuals in stock, bonds, short-term money market instruments, and other securities. Investors prefer mutual funds for many different reasons. One method of direct investing is through direct market purchase. Other methods include researching the company's future business prospects, the promoters' track record, its dividend and bonus history, and others information. The mutual funds route is usually preferred by an intelligent investor. They make an investment in a mutual funds scheme, which then, following through analysis and study, assumes responsibility for stock and share investment. The stock market study for hundreds of companies is not necessary for the investors. Leaves it up to the client.

The mutual funds business has expanded dramatically during the past ten years. As of August 31.2019, the total asset under management (AUM) were 25.47.594 crore. Frome 7.57 trillion on August 31,2009, to, 25.48 trillions on August 31,2019, the AUM of the Indian MF Industry has increased by almost three and a half times over the course of ten years. More than a thousand mutual funds plan, each guaranteeing higher returns that others, are currently available on the Indian Market. Finding the optimum investment portfolio, nevertheless, might be difficult for the average person. Analysing the performance of these AUM is now necessary in light of this. The analysis of risk and return for mutual funds in India has been attempted.

An investment vehicle known as a mutual fund is one that combines the capital of several participants to purchase a variety of stocks, bonds, money market instruments, and other securities. In order to accomplish the fund's declared investment objectives, decisions are made on behalf of the investors by a qualified fund manager or investment team.

Individual investors can easily access professionally managed, diversified portfolios through mutual funds, which eliminate the need for significant knowledge or time commitment to manage investments directly. They are a well- liked option for investors who want their portfolios to be flexible, professionally managed and diversified.

One kind of mutual funds structure known as open-ended funds is its ability to accommodate investor demand by issuing an infinite number of shares and redeeming shares whenever investors decide to sell them.

Investors who want professional portfolio management, flexibility, and liquidity should consider open-ended funds. The fund can expand or contract in response to investor demand since shares are continuously issued and exchanged, which provides that the fund's size matches the interest of the market in the investment strategy.

A particular class of investment fund known as closed-ended funds is one in which the number of shares issued at the initial public offering (IPO) is fixed. The fund does not issue new shares or redeem existing ones when they are sold to investors. Rather, a secondary market, like a stock exchange, is where investors purchase and sell closed-ended fund shares so they can transact with other investors.

Closed-ended funds are frequently utilised for certain investing strategies, and investors looking for exposure to specialised markets or unusual investment opportunities may find their

structure attractive. Investors should be mindful of the impact of trading on the secondary market as well as the possibility of market price risk. Futhermore, there's a chance that closed-ended funds may have premiums or discounts that will lower overall returns.

Open-Ended Funds:

Structure: There are no set number of shares in open-ended funds. Direct purchases and sales of shares by investors are possible from the fund at net asset value (NAV), which is determined at the conclusion of each trading day.

Continuous Trading: Transactions are made directly with the fund, and investors are free to join or withdraw at any moment. In response to investor demand, the fund consistently issues new shares and redeems old ones.

Pricing: By buying and selling shares at the NAV, it is made sure that the market price roughly corresponds to the asset value of the fund.

Liquidity: Since investors can conduct transactions directly with the fund, open-ended funds offer high liquidity. The size of the fund may change depending on investor demand.

Management: It could be necessary for fund managers to modify the portfolio in order to accommodate inflows and outflows while preserving the intended asset allocation.

Closed-Ended Funds:

Structure: A set number of shares are issued by closed-ended funds through an IPO (initial public offering). Shares are exchanged on a secondary market, such as a stock exchange, following the IPO.

Secondary Market Trading: On the secondary market, investors purchase and sell shares from one another; supply and demand determine the price. The net asset value (NAV) and the market price could differ.

Pricing: Certain factors, like investor sentiment and perceived value, might cause the market price to be either higher or lower than the net asset value (NAV).

Liquidity: The fund does not issue or redeem shares; instead, investors can purchase and sell shares on the secondary market.

Management: Closed-ended fund managers are spared the daily task of overseeing the cash flows resulting from investors joining or leaving the fund.

When selecting between open-ended and closed-ended funds, investors should take into account their investing goals, risk tolerance, liquidity preferences, and the characteristics of the underlying assets. Making a wise investment choice also heavily depends on the degree of investor participation in the purchase and sale process as well as the influence of market price dynamics.

2. OBJECTIVES OF THE STUDY

1. To understand the concept of mutual funds.
2. To analysis the risk return factors of select mutual funds schemes.
3. To analyse the comparative performance of open ended and closed ended mutual funds.
4. To evaluate the expansion and development of the mutual funds sector in India and to outline the issues the sector is facing.
5. To demonstrate the greatest investment option for a potential investor based on that person's opinion.

3. ADVANTAGES OF THE STUDY

- **Informed Decision Making:** Investors can make more informed investment decisions by understanding the differences in features, risks, and performance metrics between open-ended and closed-ended funds. This knowledge enables them to align their investment choices with their financial goals and risk tolerance.
- **Risk Management:** Comparative analysis helps investors assess the risk profiles associated with each fund type. By analyzing factors such as liquidity, NAV volatility, and exit strategies, investors can better manage their risk exposure and create diversified portfolios.
- **Flexibility:** Understanding the differences in liquidity and redemption mechanisms between open-ended and closed-ended funds allows investors to choose funds that align with their liquidity needs and investment time horizons.
- **Regulatory Compliance:** Comparative analysis can help ensure compliance with regulatory requirements governing mutual funds. By examining how each fund type operates within regulatory frameworks, investors can mitigate compliance risks and ensure adherence to relevant laws and guidelines.

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- **Industry Insights:** Comparative analysis contributes to the broader understanding of trends and developments within the mutual fund industry. Insights gained from such analysis can inform strategic decisions by fund managers, financial institutions, and policymakers, leading to improvements in product offerings, client services, and regulatory frameworks.

4. LIMITATIONS

1. As the study was done within a restricted time, the suitably big sample size became difficult.
2. Mutual fund performance may be impacted by outside variables such as unexpected crises, geopolitical events, or economic downturns. The study may not have completely controlled for these factors.
3. As mutual funds consists of various types it became difficult to cover entire subject of mutual funds.
4. The study's results may be influenced by the specific market conditions during the research period.

5. TYPES OF MUTUAL FUNDS

Mutual funds come in various types, each offering different structures and investment strategies. One way to categorize mutual funds is based on their structure, which includes open-ended and closed-ended funds:

Open-Ended Funds:

These are the most common type of mutual funds.

1. Open-ended funds continuously issue and redeem shares based on investor demand.

2. Investors can buy or sell shares directly from/to the fund at the current net asset value (NAV) per share, which is calculated at the end of each trading day.

3. The number of shares outstanding can fluctuate based on investor demand, meaning the fund's size is not fixed.

4. Open-ended funds are typically used for long-term investing and are more liquid than closed-ended funds.

Examples: Equity funds, bond funds, money market funds, and balanced funds are often structured as open-ended funds.

Closed-Ended Funds:

These funds have a fixed number of shares issued through an initial public offering (IPO).

1. After the IPO, the shares typically trade on a stock exchange like individual stocks.

2. Unlike open-ended funds, closed-ended funds do not issue new shares or redeem existing shares directly from investors.

3. Investors who want to buy or sell shares of a closed-ended fund must do so through the secondary market, where prices are determined by supply and demand rather than the NAV.

Examples: Real estate investment trusts (REITs), certain sector funds, and some specialty funds are structured as closed-ended funds.

6. CONCLUSION

Each type of fund structure has its advantages and disadvantages. Open-ended funds offer liquidity and flexibility but may face redemption pressures during market downturns. Closed-ended funds may offer unique investment opportunities but may have less liquidity and can trade at a premium or discount to their NAV. It's essential for investors to consider their investment goals, risk tolerance, and liquidity needs when choosing between open-ended and closed-ended funds.

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