

### EXCHANGE TRADED FUND SCHEMES: AN INVESTMENT AVENUE

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#### Abstract:

Mutual funds are offers an opportunity to investor for long term investment through the dimensional portfolio and small amounts of money. Mutual fund is provides opportunities for investment in private and public corporate with facility of professionally managed fund to diversify the risk and accumulation of the returns. The present research work carried out to determine better options for mutual fund investors in the segment of Exchange traded fund schemes that allow investors to long term investment options. According to technical perspectives of the selected published financial data, HDFC Sensex ETF, Kotak Sensex ETF, SBI Sensex ETF and UTI Sensex ETF are good options for mutual fund investors to short term and long term investment approach.

**Keywords:** Exchange Traded Fund schemes, Mutual Fund, Technical Analysis, Benchmark

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#### Introduction:

Mutual funds are an option for public and private corporations to raise a huge fund by selling small units to the common person who is able to invest money on regular basis or lump sum mode. Mutual funds have a common goal of capital accumulation through professionally managed funds for investors. Nowadays, numerous asset management companies are providing a lot of schemes according to capital investment criteria, lock-in period and risk return pattern. Mutual funds are the preferred investment avenue for small amounts of money. It offers an opportunity to investor for long term investment through the dimensional portfolio. Mutual funds are provides opportunities for investment in private and public corporate with facility of professionally managed fund to diversify the risk and accumulation of the returns. Exchange traded funds are combine option of investment in to diversified portfolio

and single stock investment also. These funds can traded on margin value for short sell or investors can hold for the long term. Exchange traded fund can be traded easily like other securities on the exchange.

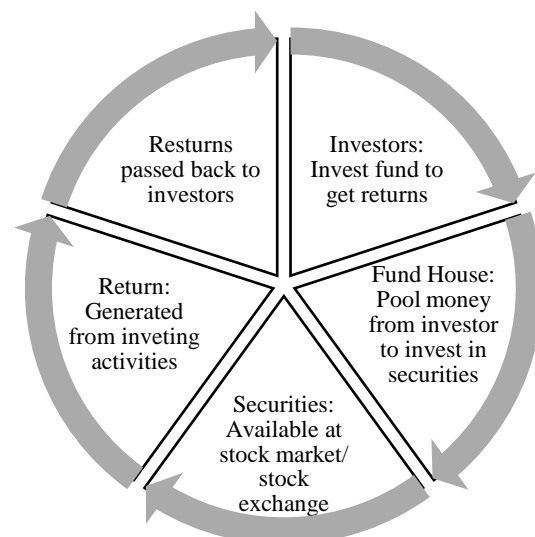


Figure 5.1 Functioning of Mutual Fund



### Review of Literature:

**Dr. Bhupendra Kumar (2016)<sup>1</sup>**, An Exchange traded funds are known as a diversified basket of securities that is traded like an individual security on exchange. The first Exchange traded funds in India was the “Nifty Benchmark Exchange Traded Scheme” based on Nifty 50 was launched in December 2001 by Benchmark Mutual Fund. Exchange traded funds have become a significant part of the equity market activity; hence, regulators are keeping a close watch on any potential impact of these products on financial stability and market volatility.

**Dr. Polisetty A. and Manda V. K. (2019)<sup>2</sup>**, Stock exchanges designing and offering a variety of indices; hence, more Asset Management Companies are seeking permission from market regulators to start offering newer Exchange traded funds products. Product awareness is critical to get more investors to Exchange traded funds so as to increase liquidity and trading volumes. Investor camps, simplified schemes, lower tax treatment and lower expenses would encourage more investors to try Exchange traded funds.

**Dr. Umarani R. and Deepa D. (2014)<sup>3</sup>**, Nowadays many Indian investors do not have these accounts and therefore do not consider Exchange traded funds. Indian stock market regulators only can regulate the way of trading Exchange traded funds and Create awareness about riskless Exchange traded funds trading to Indian traders. Local regulators in emerging markets have typically allowed only simple Exchange traded funds in the local market. However, foreign providers can create and list complex Exchange traded funds in the foreign market.

**Kurian B. C. (2017)<sup>5</sup>**, Small investors who do not have the time and expert advice could turn to Exchange traded funds. Factors such as low costs, low tracking error and intra-day trading appear to tilt in favour of Exchange traded funds. The average tracking error also seems to be on the lower side

which is a reflection of its close movement with regards to the benchmark index. Hence for a small investor looking to make a less risky investment, these instruments offer an ideal way of diversification.

**Statement of Problem:** Mutual fund investment is subject to market risk because returns on these funds are based on the entire market scenario; hence they do not provide assured returns. Financial analysts consider fundamental and technical parameters to forecast mutual fund performance. The present research work carried out to determine technical perspectives of exchange traded fund schemes which provide short term and long term investment opportunities, small quantum of money and tax saving benefits to investors.

### Objectives of the Study:

1. To understand the concept and roles of exchange traded fund schemes.
2. To measures the performance of leading exchange traded fund schemes.
3. To analysis the risk returns parameter for exchange traded fund schemes.

### Research Methodology:

**1. Data Collection:** The present research work is based on secondary data analysis. The secondary data has been collected from the websites of the Association of Mutual Fund in India, Bombay Stock Exchange, National Stock Exchange and Credit Rating information Services of India Limited.

**2. Data analysis tools:** The researchers have adopted the following statistical tools for data analysis and interpretation.

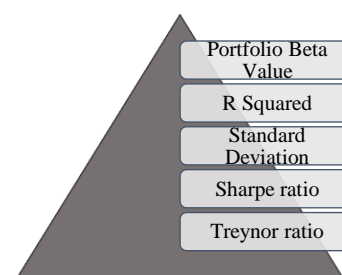
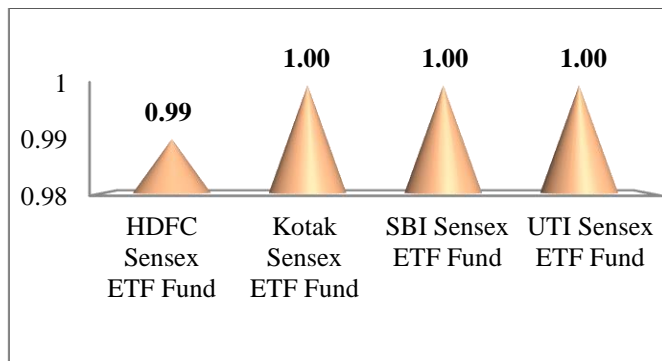


Figure 5.2 Data analysis tools

**3. Scope of the Study:** The present research is based on the secondary data published by CRISIL as of 31<sup>st</sup> March 2022 in terms of exchange traded fund schemes. The financial market is unpredictable due to micro and macro economical point of view; hence the results of present research work may vary as per time duration, internal and external environment of nation's economy.

### Results and Discussion:

#### 1. Portfolio Beta Value:

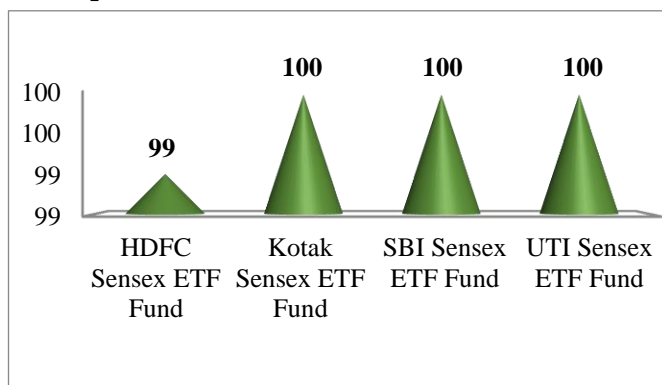


(Source: <https://www.crisil.com/>)

**Figure 6.1 Portfolio Beta Value**

Portfolio Beta is a tool of technical analysis to determine volatility of a portfolio in comparison to the benchmark. While  $\beta$  found greater than 1.0 denotes that the stock is more volatile than the market, and vice versa of it. Figure 6.1 shows that, HDFC Sensex ETF is less volatile than the Kotak Sensex ETF, SBI Sensex ETF and UTI Sensex ETF because its Portfolio  $\beta$  is 0.99.

#### 2. R Squared:



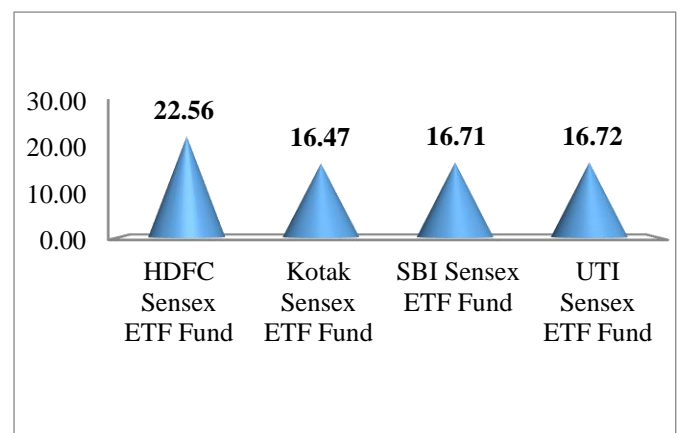
(Source: <https://www.crisil.com/>)

**Figure 6.2 R Squared**

R-squared of 0 has denotes no correlation to its

benchmark and R-squared of 100 has denotes precisely matches the mutual fund performance with benchmark. Figure 6.2 shows that, Kotak Sensex ETF, SBI Sensex ETF and UTI Sensex ETF have maximum correlation value with particular benchmark i.e. 100.00. HDFC Sensex ETF hold second position in terms of R squared value correlation with S & P BSE 500 TRI i.e. 99.00.

#### 3. Standard Deviation:

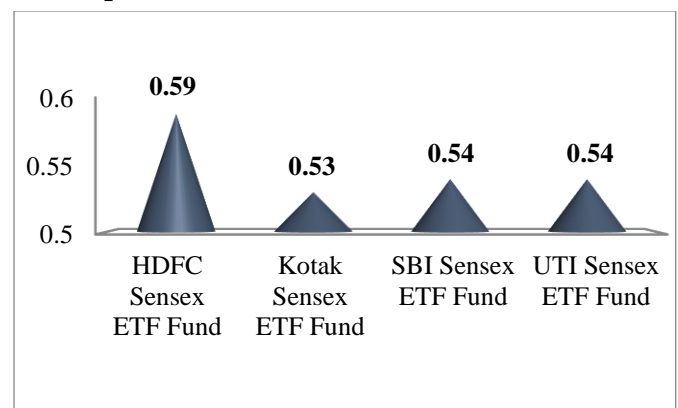


(Source: <https://www.crisil.com/>)

**Figure 6.3 Standard Deviation**

A higher standard deviation implies a higher variation in expected returns and vice versa. Figure 6.3 shows that, HDFC Sensex ETF has reflects higher variation in returns compare to Kotak Sensex ETF, SBI Sensex ETF and UTI Sensex ETF. Kotak Sensex ETF implies 16.47 standard deviation values which indicate lower variation in expected returns.

#### 4. Sharpe ratio:



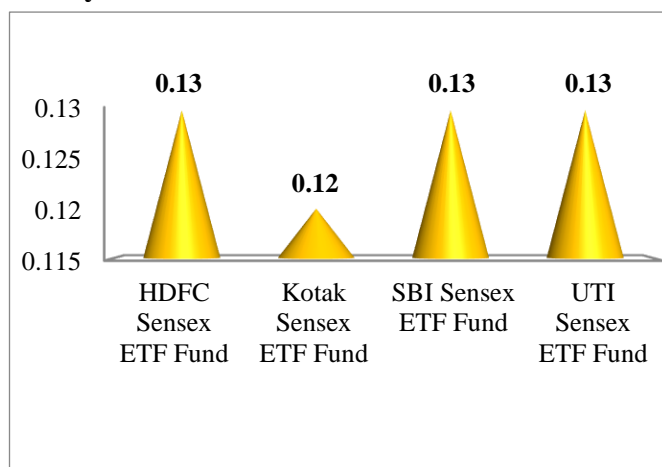
(Source: <https://www.crisil.com/>)

**Figure 6.4 Sharpe ratio**



Sharpe ratio is adapted to measures past performance or future performance of the financial portfolio for the excess risk. If Sharpe ratio is found greater than 1.0; denotes good sign for investment. Figure 6.4 show that, HDFC Sensex ETF has higher Sharpe ratio compared to Kotak Sensex ETF, SBI Sensex ETF and UTI Sensex ETF.

### 5. Treynor ratio:



(Source: <https://www.crisil.com/>)

**Figure 6.5 Treynor ratio**

Treynor ratio is known as a systematic risk adjusted measurement of return. If Treynor ratio is found higher it denotes suitable investment and vice versa. Figure 6.5 show that, HDFC Sensex ETF, SBI Sensex ETF and UTI Sensex ETF have higher Treynor ratio compared to Kotak Sensex ETF.

### Findings:

HDFC Sensex ETF is less volatile than the Kotak Sensex ETF, SBI Sensex ETF and UTI Sensex ETF because its Portfolio  $\beta$  is 0.99. Kotak Sensex ETF, SBI Sensex ETF and UTI Sensex ETF have maximum correlation value with particular benchmark i.e. 100.00. HDFC Sensex ETF has reflects higher variation in returns compare to Kotak Sensex ETF, SBI Sensex ETF and UTI Sensex ETF. HDFC Sensex ETF has higher Sharpe ratio compared to Kotak Sensex ETF, SBI Sensex ETF and UTI Sensex ETF. HDFC Sensex ETF, SBI Sensex ETF and UTI Sensex ETF have higher Treynor ratio compared to Kotak Sensex ETF.

### Conclusion:

Mutual fund investment decisions vary as per risk and return bearing capacity of investors. In present financial era, investors have lot of avenues and scheme to invest money as per risk and return predetermined manner. The present research carried out to know better options for mutual fund investors in terms of exchange traded fund schemes. Every mutual fund scheme has different characteristics according to various technical parameters. According to technical perceptive, HDFC Sensex ETF, Kotak Sensex ETF, SBI Sensex ETF and UTI Sensex ETF are good options for mutual fund investors to short term and long term investment approach.

### Area of Further Research:

The present research focused on exchange traded fund schemes. Mutual fund provides tax saving benefit, hence is most popular among investors. Mutual fund have various schemes and types, hence area of further research includes debt funds, hybrid funds and various schemes which are prevail in market.

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