# Ranking of Mutual Fund Schemes: A Reality Check

DR. AKANSHA GOEL[1], DR. SEEMA VERMA[2]

[1] Management Consultant, London, UK

[2] Guest Faculty, Department of Agri-business Management, Acharya Narendra Deva University of Agriculture & Technology, Kumarganj, Ayodhya, 224229 (U.P.) India.

*Abstract- The ranking of mutual funds is an area of in-depth analysis. It may be part of the marketing gimmick as the stakes are pretty high. It may be a beneficial tool. However, the veracity of the ranking of the mutual funds can only be established through empirical investigation. Regression analysis is always an excellent tool to help establish the matter's empirical sanctity. Moreover, dummy variable regression may be an excellent approach to use the regression analysis to establish the usefulness of ranking the mutual fund schemes.*

*Indexed Terms- Ranking; Mutual funds; Regression Analysis; Sharpe Ratio.*

## I. INTRODUCTION

The performance of a mutual fund scheme is always a debatable issue. There are a few suggestive measures to capture the performance of a mutual fund, namely the Sharpe ratio, Treynor's ratio and Jensen's alpha [21]-[4]. However, several parties use a few performance measures and rank the mutual fund schemes [1]. The ranking may be absolute or under different kinds of broader divisions of the mutual fund schemes, for example, equity, debt or balanced mutual funds.

The sanctity of the ranking of the mutual fund is a big question, which needs empirical investigation to ensure whether these rankings are relied upon or not.

## II. REVIEW OF LITERATURE

A mutual fund is a tool by which lots of small investors and their surplus (supposedly small amount) are clubbed into a more significant chunk. The ascendancy of mutual funds is the small investors. It is an open secret that investments in stock exchanges are precarious and uncertain [17]-[15]-[12]-[13]-[14]. Even the concept of market efficiency was evolving and moved from efficient market hypothesis (EMH) to adaptive market hypothesis (AMH) [10]-[11]-[19]. Hence, the uncertainty and unpredictability of the securities market demand caution and the expertise of professionals to handle the affairs of the securities market. It is also a fact that it is a securities market which can provide the maximum return for a given level of risks [3]-[18]-[16].

Mutual funds provide the best of both worlds. Mutual funds ensure that the professional expertise and luxury of the securities market are made available to small investors. The small investors do not have both. They neither have big chunks of money to invest in the securities market nor have the expertise to handle the vagaries of the stock market.

Regression is always a solution to quantitatively assess the performance of anything including the performance of mutual funds [7]-[8]. The regression includes all three types of data, namely cross-sectional [6]-[5]-[9], time-series [15] and panel data [20]-[19]. Hence, this case may also be solved using regression analysis. An application of dummy variable regression is of great help in handling such problems [22]-[6]. The case of two categories can be handled well by t-test as well. However, more than two categories would be better handled by either dummy variable regression or One-way ANOVA [2].

## III. ISSUES TO BE HANDLED

a. Some people claim that rankings are useless and do not impact the performance of mutual; funds. Verify the claim.
b. Test, individually for all the four ranks, whether they impact the performance of the mutual funds.
c. Compare the impact of different rankings on the performance of mutual funds.

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