1974 bear market in stocks and high inflation during the decade resulted in investor redemptions and shrinking assets for mutual funds. The challenging 1970-1980 decade was marked by a number of innovations. Bruce R. Bent established the first money market fund in the U.S., The Reserve Fund, in 1971, which allowed savers and investors access the high, double digit, and money market yields during an age of regulated bank interest rates (5.25 percent maximum). The money market fund was very successful.

The concept of Index based funds was given by William Fouse and John McQuown of the Wells Fargo Bank in 1971. Based on their concept, John Bogle launched the first retail Index Fund in 1976. In 1982, mutual fund assets consisted of 76 percent of assets in money market funds, 8 percent in bond funds, and 16 percent in stock funds. The first international stock mutual fund was introduced in 1947. By 1951, the number of mutual fund owners had reached one million with more than 100 funds on the market. The 1950s saw the rise of industry-specific funds. These funds included the Atomic Development Fund, The Television-Electronics Fund and the Missiles-Rockets-Jets and Automation Fund. In 1952 variable annuities (insurance policies whose premiums are invested in mutual funds as a sort of savings account) were introduced. Mutual funds had their best year in 1967, reported earnings in one quarter of 50 percent and average returns of 67 percent. At the end of the 1960s there were 269 funds with assets totalling approximately US$ 48.3 billion.

It was called the First Index Investment Trust. It is now known as the Vanguard 500 Index Fund. It crossed 100 billion dollars in assets in November 2000 and became the World's largest fund. Today mutual funds have come a long way. Nearly one in two households in the US invests in mutual funds. The popularity of mutual funds is also soaring in developing economies like India. They have become the preferred investment route for many investors, who value the unique combination of diversification, low costs and simplicity provided by the funds. This new way of doing business had an enormous impact on the way mutual funds were sold and would make a major contribution to the industry's success. With the 1980s and 1990s came the bull market mania and previously obscure fund managers became superstars; Max Heine, Michael Price and Peter Lynch, the mutual fund industry's top performers, became household names and money poured into the retail investment industry at a striking pace. More recently, the burst of the tech bubble and a spate of scandals involving big names in the industry took much of the shine off of the industry's reputation. Shady dealings at major fund companies demonstrated that mutual funds aren't always benign investments managed by folks who have their shareholders' best interests in mind.

1.4 History of Mutual Funds: India

Indian origin and history has generally studied in different phases. These are:

1.4.1 First Phase (1964-1987): Emergence and Growth of Unit Trust of India: In India, the Investment Trust came into existence in 1933. First, industrial investment trust was established by Bombay (Mumbai) brokerage firm named 'Premchand Roy Chand and Sons'. But the mutual fund concept was introduced in India with the setting up of Unit Trust of India (UTI) in the year 1963. [1] The concept of mutual fund was coined in 1964, by the farsighted vision of Sri T.T. Krishnamachari, the then finance minister. Taking into consideration the recommendations of the Central Banking Enquiry Committee and Shroff Committee, the Central Government established Unit Trust of India in 1964 through an Act of Parliament, to operate as a financial institution as well as an investment trust by way of launching UTI Unit Scheme 64. The UTI was the first mutual fund set up by an Act of Parliament. It became in operation in 1964 with a major objective of increasing savings through the sale of units and investing them in corporate for maximising the funds of investors. It was set up by the Reserve Bank of India and functioned under the regulatory and administrative control of the RBI. In 1978, UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI.

The first scheme launched by UTI was Unit Scheme 1964. Over three decades, US-64 attracted the investors in large number and it was the single largest investment scheme. Until 1980, UTI's operations in the stock market often determined the direction of market movements. At the end of this phase, UTI had mobilised ₹ 2,175 crore and assets under management was ₹ 6,700 crore.

1.4.2 Second Phase (1987-1993): Entry of Public Sector Funds: The year 1987 marked the entry of non-UTI mutual fund companies sponsored by nationalised banks and insurance companies. These mutual funds created healthy competition in the mutual fund industry. With the opening up of the economy, many public sector banks and financial institutions were allowed to establish mutual funds. SBI mutual fund was the first mutual fund followed by Canbank Mutual Fund (December, 1987), PNB Mutual Fund (August, 1989), Indian Bank Mutual Fund (November, 1989), Bank of India (June, 1990), Bank of Baroda Mutual Fund (October, 1992), LIC in 1989 and GIC in 1990. In 1988, UTI floated another offshore fund, namely the India growth fund which was listed on the New York Stock Exchange. With the entry of public sector fund, there was a tremendous growth in the size of the mutual fund industry with investible funds. These mutual funds helped in enlarging the investor community.

During this period, investors were shifting away from bank deposits to mutual funds, as they started allocating larger part of their financial assets and saving to mutual fund investments. UTI was still the largest segment of the industry, although with nearly 20 percent market share.

1.4.3 Third Phase (1993-1996): Entry of Private Sector Funds: With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund families. 1993 was also the year in which the first mutual fund regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993. The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations, 1996.The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and the industry has also witnessed several mergers and acquisitions.

1.4.4 Fourth Phase (1996-2004): Growth and SEBI Regulations: The entire mutual fund industry in India, despite initial hurdles, has scaled new heights in terms of mobilisation of funds and number of players. Deregulation and liberalisation of the Indian economy has introduced competition and provided impetus to the growth of the industry. Finally, most investors-small or large-have started shifting towards mutual funds as opposed to banks or direct market investments. More investor friendly regulatory measures have been taken both by SEBI to protect the investor and by the Government to enhance investor's growth through tax benefits. A comprehensive set of regulations for all mutual funds operating in India was introduced with SEBI (Mutual Fund) Regulations, 1996.

These regulations set uniform standards for all funds and will eventually be applied in full to Unit Trust of India, even though UTI is governed by its own UTI Act. In fact, UTI has been voluntarily adopting SEBI guidelines for most of its schemes. Similarly, the 1999 Union Budget took a big step in exempting all mutual fund dividends from income tax in the hands of investors. Both the 1996 regulations and 1999 Budget must be considered of historic importance given their farreaching impact on the fund industry and investors. The year 1999 marks the beginning of a new phase in the history of the mutual fund industry in India, a phase of significant growth in terms of both amounts mobilised from investors and assets under management.

The mutual fund industry witnessed robust growth and stricter regulation from the SEBI after the year 1996. The mobilization of funds and the number of players operating in the industry reached new heights as investors started showing more interest in mutual funds. Various investor awareness programmes were launched during this phase, both by SEBI and AMFI, with an objective to educate investors and make them informed about the mutual fund industry. In February 2003, the UTI Act repealed and UTI was brought out of its special legal status as a trust formed by an Act of Parliament. The primary objective behind this was to bring all mutual fund players on the same level. The UTI act 1962 was repealed and UTI was re-organized into two segments i.e., (a) The specified undertaking of UTI, and (b) The UTI Mutual Fund.

Presently, Unit Trust of India operates under the name of UTI Mutual Fund and its past schemes (like US-64, Assured Return Schemes) are being gradually wound up. However, UTI Mutual Fund is still the largest player in the industry.

This phase had bitter experience for UTI. It was bifurcated into two separate entities. One is the specified undertaking of the Unit Trust of India with AUM of ₹ 29,835 crore (as on January 2003). The specified undertaking of Unit Trust of India, functions under an administrator and under the rules framed by Government of India and does not come under the purview of the mutual fund regulations. The second is the UTI Mutual Fund Ltd., sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the mutual fund regulations. At the end of June 2012, there were 44 mutual funds, which managed assets of ₹ 6,92,789 crore. There has been a steady increase in the share of mutual funds in household savings. It has risen from 0.3 percent in 1980-81 to

7 percent in 1992-93 and again decreased to less than two percent in 2004-2005.

1.4.5 Fifth Phase (2004 onwards): Growth and Consolidation: The industry has also witnessed several mergers and acquisitions recently, examples of which are acquisition of schemes of Alliance Mutual Fund by Birla Sun Life, Sun F&C Mutual Fund and PNB Mutual Fund by Principal Mutual Fund. Simultaneously, more international mutual fund players have entered India like Fidelity, Franklin Templeton Mutual Fund etc. There were 44 funds as at the end of June 2012. This is a continuing phase of growth of the industry through consolidation and entry of new international and private sector players.

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To sum up, mutual fund is an emerging financial services intermediary and it has enormous value in the financial market. A mutual fund is recognized as a medium term as well as long term investment option. Mutual fund provides a number of mutual fund options for saving and investment for meeting the needs of retail (small) investors. Foreign investors, local institutions and mutual funds are now playing a bigger role in promoting financial products. Mutual funds invest according to the underlying investment objective as specified at the time of launching a scheme. So, we have equity funds, debt funds, gilt funds and many others that cater to the different needs of the investor. With the entry of new fund houses and the introduction of new funds into the market, investors are now being offered plenty mutual fund choices.

The tremendous growth of Indian mutual funds industry is an indicator of the efficient financial market. Besides, the Indian mutual fund industry that started with traditional products like equity fund, debt fund and balanced fund has significantly expanded its product portfolio. Today, the industry has introduced a range of products such as money market funds, sector-specific funds, index funds, gilt funds, capital protection oriented schemes, special category funds, insurance linked funds, exchange traded funds, and marching