A STUDY EXCHANGE TRADITIONAL FUND (ETF) AS AN INVESTMENT AVENUE FOR PASSIVE WEALTH GROWTH IN INDIA WITH REFERENCE TO NIFTY50

Prof. Raghunandan Helwade Research Scholar,
AudyogikShikshanMandal's Institute of Business Management and Research, Pune
raghu.helwade@gmail.com

Dr. MangalagouriPatil Assistant Professor,
MarathwadaMitramandal's Institute of Management Education Research and Training, Pune
gourii811@gmail.com

Dr. Bhagyashri Deshpande Assistant Professor,
MIT World Peace University, Pune.
bhagyashri.deshpande@mitwpu.edu.in

ABSTRACT
Mutual funds are emerging as an attractive investment option. MFs are successful especially in channelizing and mobilizing the savings of many retail investors into the investment in various equity and debt instruments. Mutual fund investment is considered as less risky than investing directly in stocks as experienced fund managers take delicate investment decisions and is therefore definitely a safer option for inexperienced risk averse investors.
An Exchange Traditional Fund (ETF) is defined as an instrument to gather money from prospective investors, with a promise that the money would be invested in a specific predefined manner and methodology
This paper studies performance of ETFs and presents an exchange traditional fund (ETF) as an investment avenue for passive wealth creation. Investment in ETFs picking up since last decade. Awareness level of investors is increasing
The analysis and interpretation from study presents that tracking error is higher for ETFs as compared to index funds. The active returns analysis by presenting two ETFs reveals that ETFs always fared better than their underlying index while the index funds sometimes underperformed
and sometimes outperformed the underlying index. Transaction fees and charges are higher in Index funds as compared to ETFs.
Suitable strategies and important aspects for sound investment decision making are also discussed in the paper.
Keywords – ETF, Investment Avenues, Passive Investment, Index Funds, SIP, Lump Sum investment

Introduction

An Exchange Traditional Fund (ETF) is defined as an instrument to gather money from prospective investors, with a promise that the money would be invested in a specific predefined manner and methodology.

Indians are traditionally fond of various savings. These savings were initially in the form of cash, which were after independence converted into bank savings under various bank savings plans. Savings have also been done through Life Insurance Policies, fixed deposits, National Saving Certificates etc. Gradually the saving trend of Indians has been changed to equity, real estate, corporate bond and bullion.

To understand the awareness about the ETF, a survey was conducted by Max New York Life and National Council of Applied Economic Research (NCAER), New Delhi. The outcome of the survey was that Indians prefer keeping more than 65% of their savings in the form of cash at homes, at banks or at post offices. 23% of Indians savings were in the form of investments physically, such as gold or real estate; and only 12% on financial instruments. However, it is to be noted that those who invested in equities have reaped better benefits than the above mentioned traditional savings, though its benefits are changing from time to time.

According to the estimate, the Assets under Management (AUM) of Indian Mutual Fund Industry as on 31st of March 2021 comes to Rs.29, 73,952 crores. The growth level of AUM of Indian MF Industry has gone from Rs.13.04 trillion as on 31st May 2015 to Rs.29.55 trillion as on 31st May 2021; i.e. more than double addition within 5 years period. The Mutual Fund Industry Assets Under Management has shown an unprecedented growth up to Rs.10 trillion (10 lakh crores), as per the figures noted in April 2014. In just a three year period, the AUM crossed double Rs.20 trillion (Rs.20 lakh crores) in July 2017. Assets under Management stood at Rs.29.55 trillion presently. It is the fastest growing section under the Finance services sector.

On 31st May 2020 the total number of mutual fund accounts have been recorded as 9.10 crores (91 million); while the equity folios Hybrid and Solution Oriented Schemes is reported as 8.03 crores (80.3million), and it is reported that the maximum investment source is retail segment.

Exchange Traded Funds (ETFs) are modern financial instruments and are considered as financial security based on index, commodity, or bonds.

Another peculiarity of ETF is that ETF trades like any common stock on any stock exchange. The daily liquidity of the ETF is observed to be on the higher side and fees are c lower in comparison with stock exchange. In conclusion we can understand that ETFs are very much beneficial.

Literature Review

Shukla & Malusare (2016) say that comparison of various mutual funds are done and found that analysis helps the investor in making investment decisions but not every investment is done with analysis alone will be helpful. Prasanna (2012) says that there are opportunities for improvement in the awareness of Exchange Traded Funds. Narend (2014) finds that exchange Traded Funds. ETF's scored over Index Funds as passive investment opportunities in financial markets. Evgeni (2012) "Price Momentum and Trading Volume" provides a vital link between momentum and value strategies.

Jayanthi, Malathy & Radhulya (2013) say that ETF gives better returns than in other modes of investments. There are more than 50% of individual investors who are unaware about the functioning and benefits of ETF's. Agarwal, Mirza (2017) An investor should analyze the market before investing. Investment analysis is highly important for the benefit of risk reduction and maximizes the gain. Stocks are unique investments because they allow us to take partial ownership in Kumar and Raj (2019) Gold as an investment avenue that always holds a special place in the hearts of Indians. Research paper discusses benefits of investing in Gold ETF's.

Ben-David, Franzoni, & Moussawi (2019) studied on interplay between investors' demand and provider incentives that have shaped the evolution of exchange traded funds. Investment in ETF's by investors of various countries were also analysed to find out preference of investors across various countries.

OBJECTIVES OF STUDY

1. To examine the performance of the Nifty ETFs in relation to the Nifty50 index.
2. To study the replication performance of the Nifty ETFs and rank the Index Funds based on Tracking Error.
3. To study the potential risk and reward of investing in Nifty ETFs.
4· To study how to use Lump-sum and SIP together as a combination to improve returns on investment.

Scope Of Study

To understand the present scenario with reference to ETF investment available in the market. Investors are also interested to know what is available in the market with the different degree of risk and returns. A discussion on risk and return is vital for any investment management. Hence the scope is explained as under:

1. These studies the performance of indices and ETFs from the period of their origin.
2. The study is specific and revolves around index and ETFs. Samples taken are on yearly basis.
3. All information collected is relevant till A.Y. 2021.

Research Methodology

Research methodology may be defined as scientific procedures used to understand, select, process and analyze on a given topic. The methodology enables readers to understand the validity and reliability. For our research, we have used a Quantitative Research methodology.

Research Design:

The research design gives answers to the questions on research problems such as what, how, when, why, money involved, time required, for the research study. In short, it gives clear answers/ directions on the above questions.

Sampling Unit:

To this study, samples were selected from two Exchange Traded Funds.

The research problem presented was solved by systematic analysis of data. Examination of excess return, tracking errors, expense ratio was done in order to perform data analysis and subsequent interpretation.

Sample Size
Samples were selected from two Exchange Traded Funds; such as SBI Nifty 50 ETF and Nippon India Nifty 50 Bees ETF

The research problem presented was solved by systematic analysis of data. Examination of excess return, tracking errors, expense ratio was done to perform data analysis and subsequent interpretation.

Data Collection And Analysis
Secondary data was used for the research study. Secondary data is defined as data, which is collected by someone other than the primary user. We have used published documents, articles published, reports of Association of Mutual Fund, NSE website etc.

Firstly, the study of the Nifty index was done. For that, data of nifty in the following are analyzed for a period of 10 years and in a way to understand the historical performance of the index over the long period of time. That gave us a benchmark to analyze and make certain assumptions and interpretations. Since its inception Nifty 50 index has delivered an annualized return of 12.2% beating all the other asset classes over the time in the passive investment class.

Summary of the Nifty performance for the year December 1995 is shown below:

To analyze this from another perspective, kindly go through the table below.

It gives you the current value of Rs 1 lac invested in *Nifty 50* every year since 1995(since inception of Nifty index):

Rupees one lakh invested in Nifty 50 index fund could have given Rs. 22, 74,962.00 as on December 2021; giving the annualized return of 13.12%.

Script	Highest	Lowest	Change (Since Inception)
Nifty	18604.45	775.43	2274.96%

Table1 : NIFTY50 returns

Comparative study of two Nifty ETF's was carried out. Data is represented as follows

NAME	**TRACKING ERROR**	**EXPENSE RATIO**	**RETURNS**	**Benchmark**
SBI Nifty 50 ETF	0.27	0.07	13.52%	NIFTY 50 – TRI
Nippon India Nifty 50 Bees ETF	0.18	0.05	9.86%	NIFTY 50 – TRI

Table 2: Comparative study

SBI Nifty 50 ETF

CAGR	**5 Year**	**3 Year**	**1 Year**

CAGR	5 Year	3 Year	1 Year
FUND RETURNS	11.66	13.72	1.61
IMPLIED INVESTOR RETURNS	13.52	16.97	7.46

Table 3 : SBI Nifty 50 ETF CAGR

Nippon India Nifty 50 Bees ETF

CAGR	5 Year	3 Year	1 Year
FUND RETURNS	8.98	14.93	1.64
IMPLIED INVESTOR RETURNS	9.86	17.31	8.73

Table 4 : Nippon India Nifty 50 Bees ETF CAGR

Comparison of Risk-Adjusted Returns of ETFs and Index funds

Index funds tracking Nifty50	Alpha (%)	Beta	R2
SBI Nifty 50 ETF	-0.19%	0.97	0.99
Nippon India Nifty 50 Bees ETF	-0.53%	0.93	0.94

Table5: Comparison of Risk-Adjusted Returns

Interpretation

After seeing historical data and performance of the index for more than two decades the return earned are fabulous and are much desired among the common investor who does not understand the stock market functions. Over the long term one can invest in lump sum and small amount through sip and can make a good number of returns.

For analyzing the performance from the beginning, the research study took two Exchange Traded Funds. The objective of any investment schemes is to obtain return on investment.

SBI Nifty ETF is sponsored by the State Bank of India and managed by SBI Mutual Fund. On the other hand, Nippon Nifty Bees ETF is sponsored by Nippon India Exchange Traded Fund Limited and managed by Nippon Life India Asset Management.

Both ETFs are passively managed and aim to provide exposure to the Nifty 50 Index, but there may be minor differences in their portfolio composition, expense ratios, and other fund characteristics. It is recommended to compare the ETFs' holdings, expense ratios, and performance history before making an investment decision.

Tracking Error And Expense Ratio

The ratio of expense shows how much it costs to be in and out of the theme. It affects the actual returns.

SBI Nifty ETF had an expense ratio of 0.10% and Nippon Nifty Bees ETF had an expense ratio of 0.11%, which suggests that both ETFs have similar expense ratios. However, the exact tracking error of each ETF may differ and it's important to check the latest information. Keep in mind that expense ratios and tracking error can change over time, so it's important to regularly review these metrics when comparing ETFs.

In general, when comparing ETFs, it's important to consider both the expense ratio and the tracking error, along with other factors such as the portfolio holdings, liquidity, and performance history.

Findings And Observations:

- Annualized return from the inception is 13.52% by SBI Nifty Exchange traded funds which is far better in comparison to any other passive investment option.

- Finding the fund with low tracking error and expense ratio is important as it improves the return on capital employed. Although return on investment also needs to be looked into as an important criterion.

- Combination of lump sum and SIP together gives better return than simple SIP.
- Maximum investors are now getting aware about Exchange Traded Fund investment options. Investors do not invest in a single avenue. They prefer different avenues.

- Maximum investors prefer to invest in bank FD but as return rates are getting lower and lower they are now moving towards stock markets through ETFs. The basic objective of investors is to invest money where they are convinced of a proper return on investment.

- While doing investment factors such as return on investment, benefit of tax, and appreciation of capital are to be considered. From the research it was found out that behavioral factors are also influential while making investment decisions.

Suggestions:
Following are the recommendations of the study:

- Investors who want to create a corpus for a particular purpose in the future i.e. Minimum of 20+ years should allocate a good amount of their investment in the index fund.

- Investors for getting proper return on investment may invest largely in ETFs as it can give them all the required facilities and gain from it.

- In fact the investment pattern of investors depends upon their needs from time to time; it is recommended to investors that long term investment is better than short time span.

- Those investors who want to create real wealth from ETFs and want financial freedom should go for diversification by allocating funds for lump sum as well as SIP strategy to have a great return on investment.

- Investors should consider going for a new way to invest in this new era with direct investing through direct plan which have a low expense ratio.

Reasons to consider for investing in ETFs with reference to above mentioned mutual funds:
Diversification: ETFs provide exposure to a broad range of stocks, bonds, commodities, or other assets, which can help to diversify an investment portfolio and reduce risk. Both ETF's track nifty which consist of 50 stocks from 20 diversified sectors.

Low Costs: ETFs typically have lower expenses than actively managed mutual funds, which can result in higher returns for investors over the long term. Cost to invest in above ETF's are significantly less as compared to other mutual funds.

Liquidity: ETFs are highly liquid and can be easily bought and sold on stock exchanges, making it easy for investors to buy or sell their holdings as market conditions change. Entry and Exit can be freely initiated in both ETF's.

Potential for Higher Returns: ETFs can provide exposure to asset classes that have historically delivered higher returns, such as emerging markets or real estate. As it is being proved via research that the direction of the index in the long term is usually in an upward direction. Even unluckiest wins in long term investment.

Investment Strategy based on Findings
To maximize the returns only passive SIP will not work. So, to create extra alpha from this investment we can follow a simple strategy of SIPs and Lump sum.

Strategy is simple whenever Underline Index comes below its 200 days moving average and then start to cross the 200 days moving average invest the lump sum amount. By this process the average of your NAV will come drastically down resulting in better returns. Exchange traded funds provide a better and safe platform of wealth creation as one can benefit from index management strategies by experts.

Conclusion:
In this study, a comparative study was performed between two Exchange Traded Funds SBI Nifty 50 ETF & Nippon India Nifty 50 Bees ETF to evaluate the performance.
Out of many Exchanges Traded Funds Nifty 50 ETFs selected to come out with proper benefits.
After comprehensive study it was found that the tracking errors existed in ETFs and Expense Ratio varied for different ETFs but not very significantly. As a result of which it must not be the primary criteria for decision making in investment.

The main portion of financial savings goes into pension funds and life insurance. Currently, Stock Market, Mutual funds and Exchange traded funds have become incredibly popular options for a wide variety of investors. One of the primary reasons can be due to "*Mutual fund sahihai campaign*".

The automatic diversification Exchange traded fund offer, as well as the advantages of professional management, liquidity and customizability.

After comparison of two ETF's it is concluded that there's no significant difference in the performance of the ETF as compared to actively managed mutual funds.

Finally it is concluded that ETFs are better than index funds and other type of passive investment financial instruments and it is projected to grow at a rapid pace based on findings of the research.

Nifty ETFs can be a good investment option for investors looking for a low-cost and convenient way to gain exposure to the Indian stock market.

References
Badrinath, S.G., and Gubellini, S. (2010) : Mutual Fund Performance: A synthesis of taxonomic and methodological issues. IIMB Management Review, 22, 147–164.
Engle, R., and Sarkar, D. (2006). : Premiums-Discounts and Exchange Traded Funds. Journal of Derivatives,
Itzhak Ben-David, Francesco Franzoni, RabihMoussawi (2019)," An Improved Method to Predict Assignment of Stocks into Russell Indexes" ,Swiss Finance Institute Research Paper No. 19-56
J K Raju, Mr. Manjunath B R and Mr. Rehaman M (2018) : A Study on Performance Evaluation of Gold ETFs in India, IJEMR – February 2018 – Volume: 8, Issue 02
M. Jayanthi, S. Malathy, T. Radhulya (2013)," A study on performance of gold ETF companies in india, International Research Journal of Business and Management – IRJBM ISSN 2322-083X, IRJBM – (www.irjbm.org) December – 2013 - Volume No – VI,
S. Narend (2014): "Performance of ETFs and Index Funds: a comparative analysis", a Doctoral Research project at the Department of Management Studies, Indian Institute of Technology, Madras.
ShivangiAgarwal, NawazishMirza (2017), A study on the risk-adjusted performance of mutual funds industry in INDIA", Review of Innovation and Competitiveness: A Journal of Economic and Social Research, Vol. 3 No. 1, 2017.
Sathish Kumar B and Ram Raj G (2019) : Gold vs. Gold Exchange Traded Funds: An Empirical Study in India, Economic Affairs, Vol. 64, No. 4,
SmitaShukla, RakeshMalusare (2016) : "A Study on Performance of Indian Mutual Fund Schemes Investing in Overseas Securities" , IOSR Journal of Business and Management (IOSR-JBM) e-ISSN: 2278-487X,

