

## **Predicting Returns on Mutual Fund: Some Indian Evidence**

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*Common indicators of business and monetary conditions, the lagged mutual-fund-risk premium and the market-risk premium are used to predict mutual-fund returns for a time horizon of one-day. In isolation, each of the four predictors significantly forecast mutual-fund returns from April 2008 to March 2011 for Indian market. The indicator of monetary conditions, i.e., the MIBOR premium is found to have the strongest forecast power. Multivariate analysis confirms that the four predictors are indeed strong forecasters of mutual fund returns. Moreover, the MIBOR premium, term premium and lagged mutual-fund-risk premium emerge as the best and most consistent predictors of mutual fund returns. The market-risk premium is found to be good, but less consistent as predictor of mutual-fund returns.*

### **I Introduction**

Mutual Funds as a channel of resource mobilization in recent past have gained importance in general and in India in particular. Generally, an investor prefers to invest in units of mutual funds having efficient diversification. In other words, the diversification of portfolio becomes difficult for the investor either due to insufficient fund, or the absence of expert opinion. Hence, he attempts to find out the best possible way of earning on his investment by evaluation of various profitable opportunities of multiple mutual fund opportunities available to him. The selection of one mutual fund in preference to another may be largely induced by his risk-return framework. For instance, if he prefers to earn a higher rate of return, then he naturally selects his investment in a growth-oriented mutual fund. Further, examination of mutual funds performance calls for close scrutiny of return on market index. If the mutual fund performs better than return on market index, then investors, expecting higher returns, may attempt to invest in that fund. In essence, it can also be said that it has outperformed the market index. If the mutual fund is performing purely on the benefits of its component securities, then it is possible to earn a higher return as compared with market return. Otherwise, the return on mutual fund is influenced by the return on market index. It means that return variation of market index may largely induce the return on

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