SELECTION OF INDEX FUND- A THEORETICAL PROSPECTIVE

SUGANDHARAJ KULKARNI*; VILAS BALGAONKAR**

*ASST. PROFESSOR & RESEARCH SCHOLAR
HIRACHAND.NEMCHAND.COLLEGE OF COMMERCE,
DEPARTMENT OF MANAGEMENT STUDIES, SOLAPUR

**ASST. PROFESSOR & RESEARCH SCHOLAR
HIRACHAND.NEMCHAND.COLLEGE OF COMMERCE,
DEPARTMENT OF MANAGEMENT STUDIES, SOLAPUR

ABSTRACT
As equity markets in U.S evolved and became more sophisticated, the fund managers found it more and more difficult to outperform the Index net of trading costs, broker commissions, market spreads and taxes. It has been seen that over the last 20 years over 85% of active fund managers have underperformed the S&P 500. To add to that, as the mutual fund industry grew in size, it became difficult to say that a fund manager who had outperformed the Index this year would be able to do the same year after year. Realizing this, it was felt that if it was difficult to beat the Index consistently, one could at least get Index returns. Thus, many Investment managers purchased stocks in proportion to the Index, either knowingly or simply by default. As a result this process became to known as closet Indexation. Out of this evolved the idea of a passive buy and hold portfolio with a reduced trading cost and with a greater control over the portfolio risk.

KEY WORDS: Fund Manager, S&P, investment, portfolio, risk