

Mutual Funds: An investment option from investors' point of view

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ABSTRACT

Investment decision for individual investor is concern with various factors. These factors might affect the whole investment process. Mutual Funds have become an important portal for the small size investors. Mutual fund plays a vital role in the Indian economy.

The main focus of the study is to know investor's view about the investment preference and motivational factors, especially for mutual funds. This study is of descriptive type research. The target population will be individual investor in Anand – Vidyanagar area of relatively affluent western State of Gujarat (India). The survey will be based on convenience sampling having 100 investors as sample size. The study will try to identify the consumers' preference for various mutual funds and the main reasons for investment in mutual fund schemes. The study will also try to investigate various factors that investor is thinking before selecting a mutual fund company. Overall, the study is focusing on the behavior of individual investors and hence form a part of behavioral finance area.

Keywords: Financial Behavior, Financial Decision, Individual Investor, Investment Preference, Mutual Funds

Introduction

The term investment is very difficult to describe as investors point of view. The process of investment is always identifying with the consumers expectations and selection of financial instruments where they want to invest their funds. Generally preferable investment avenues are shares, debentures, fixed deposits, mutual funds insurance policies, real assets and liquid financial instruments. By investing their funds in financial instruments, they are quit from the present consumptions means its quite often their expectation is very high in terms of future return as compare to present expectations. A number of factors may be affected to investment decision of individual investors. From the various risk-return opportunities set investor can select the optimal portfolio for investing their funds in various financial assets.

An attempt has been made in this study tries to identify the perceptual influencing and motivating factors on individual investors to invest their money in mutual funds. There are lots of investment opportunities available to an investor from the various investment avenues. Each of the investment vehicles has their own characteristics. The proverb “Serve all variety of foods in one plate” suggest to investors to diversify the risk. Diversification refers to the process whereby investors invest his/her money in the more then one investment vehicles.

All the investors may not have the knowledge about fundamental and technical credentials of any investment avenues before they decide to invest their money in various investment opportunities set. Small income earner can not directly invest their money in the stock market but they will prefer to invest in less risk investment avenue like mutual funds. The tremendous growth has shown by the mutual fund industry from the past few decades. The mutual fund industry plays a vital role in the developing the financial market and economy. Mutual fund industry is also called as a retail investment shop for small and medium income groups.

Overview of Indian mutual fund industry

The establishment of the unit trust of India marked the evolution of the Indian mutual fund industry in the year 1963. The basic objective behind to develop the mutual fund industry in India that try to attract the small investors and more market participant from the general investor which belongs from the small income groups. During the period of 1964-87 the reserve bank of India disclosed some mandatory and regulatory framework for mutual funds industry. In 1964 the Unit trust of India has launched the first mutual fund schemes named US – 64 and the tremendous response has been received from the small investors. From 1987-93 public players has entered in the mutual fund industry. More than 90% market share capture by the public sector players during this development phase. From the period of 1993-96 lots of private players also entered into the mutual fund industry with the collaboration of foreign asset management companies and launched variety of the schemes in the Indian mutual fund industry. During the period of 1996-2004 SEBI has implemented some new guidelines for the mutual fund players related to investors protection. It is also called as DIP – 2000 (Discloser investor’s protection guidelines 2000). During this time period SEBI had also conducted investor’s awareness programmes toward available investment opportunities. The last development phase of mutual fund industry in India was started from 2001 onwards. The industry has witnessed the several strategic alliance, mergers and acquisitions for throwing a variety of mutual fund schemes for

different class of investors. Up to 2008 mutual fund industry shows significant and continuous growth but from 2008 onwards various mutual fund schemes generates negative return due to the recession period.

Operational flow of mutual funds

The Indian mutual fund industry is expected to grow in next future due to high degree of clearness and discloser standard comparable to anywhere in the world, the mobilization of the fund in the mutual fund sector is very high as compare to other financial sector.

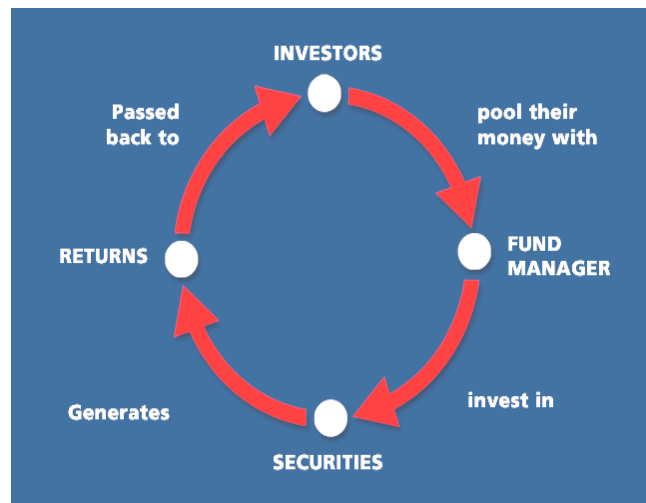


Chart-1: operation flow of mutual funds

(Source:<http://www.scribd.com/doc/53730558/22/MUTUAL-FUND-OPERATION-FLOW-CHART>)

From the above chart: 1 shows the circular flow of the mutual funds. Initially individual investors aggregate their financial resources and that financial resources apply in the various mutual fund schemes with the help of specific fund manager. On behalf of group of investors fund manager can invest their financial resources in various classes of security. From that investment fund manger can generate some amount of returns and that return pass to the individual investors. It's just like a normal economic revenue generation process.

Classification of mutual funds

There are a wide flavored variety of mutual fund schemes which can be satisfy the investors needs based on the risk tolerance limits, expected returns and other demographics characteristics. Mutual funds are classified in to three different major categories. First one is structure classification; second classification is related to investment objective and the last one concern with general class. According to first classification three major types of schemes are available

open ended, close ended and interval or mid way schemes, now as per second classification related to investment objective variety of schemes are available like growth schemes, balance schemes, income schemes, money market schemes etc. the last classification belongs form the general areas like specific sectors, tax savings schemes, index schemes, specific commodity schemes etc.

Literature Review

During the life of an individual investors investment decision play a crucial role. Kavitha and Ranganathan studied on the topic of the preference of an individual investor which has concern with the fund selection behavior and awareness level of individual investors with special reference to the selected area of Mumbai city.

In the year of 1981 Kaplan & Garrick found that risk are generally concern with factor of uncertainty and potential loss. Middle and lower income group investors are belongs from the risk adverse categories. Each and every investors demands higher amount of returns with the most possible lower level of risk. Markets are always efficient but the behavior of individual investors was concern with the risk and return portfolio which has been observed by Kaplan and Garrick.

Patel et. al. has found that mutual fund manager have a various style to design a mutual fund schemes as per needs of the investors. In the most of situation the fund purchase decisions based on the past performance of the mutual fund schemes and also consider the present performance of the mutual fund schemes.

Research paper titled “How to invest in Mutual funds” written by Mustafa Soleimanzadeh. He has found the possible risk-return combinations for various mutual fund schemes. He was identifying risk and return depends on each other from this research. The general behavior among the mutual fund investors towards the investment patter rather than investing their funds in mutual funds they are preferred equity stock.

During the period of 2002 Rajeshwari T R & Moorth Rama V E has found the most influencing and motivating factors for selection of the various mutual fund schemes. Using the principle component analysis they identify investors financial behavior related to fund selection. Most of the investors are not aware about the objectives & constraints about the mutual fund investment. The new era of marketing concepts and strategies place a special attention on needs in efforts to provide the high level of quality services.

A negative correlation exists between advertisement and fund quality found by the Jones et al, during the period of 2007 with special reference from the specific sample. General investors expect that the mutual fund schemes are able to generate the moderate amount of return with a lower level of risk.

In the research article titled “Basics about Mutual Funds” had discussed about the various classification and types of the mutual funds written by Kum Martin. He quoted that equity funds only involve the equity & common class of investment. Common stock 100% risky investment even though it's earning was vary as compare to any other investment avenues. Government and corporate fixed income securities generate steady returns for a specific time span of investment. Combination of two different classes of investment avenues will be able to generate an excess return over a risk free rate of return (T. Bills returns).

In the year of 2011 Dr. Nanadagopal, Satish M, Naveen K. J & Jivenatham V. has been carried out the research on the topic of fund selection behavior of an individual investors with special reference to the different mutual fund schemes. As per analysis of this study 27% investors willing to invest their fund in the various mutual funds. In this study most affecting factor for purchase the mutual fund was the portfolio diversification.

Objectives of the Study

The present study tries to identify the following objectives given below:

To study the perception of investors on various investment opportunities

To identify the most influencing and motivational factors for mutual fund investors

To study about the willingness of the mutual fund investors

Research Methodology

(A) Research Design

The present research is based on the descriptive research design as the objective of the research is to describe the reasons behind investors investing their funds in mutual funds among the different mutual fund schemes and other than mutual funds option.

(B) Sampling Method

For the purpose of above research simple random sampling method applies and tries to identify the result based on the survey which is relevant to the objectives of the study. The present study was conducted in Anand – Vidyanagar area of relatively affluent western State of Gujarat (India). In Anand – Vidhyanagar region around 29 share broking offices including franchisees

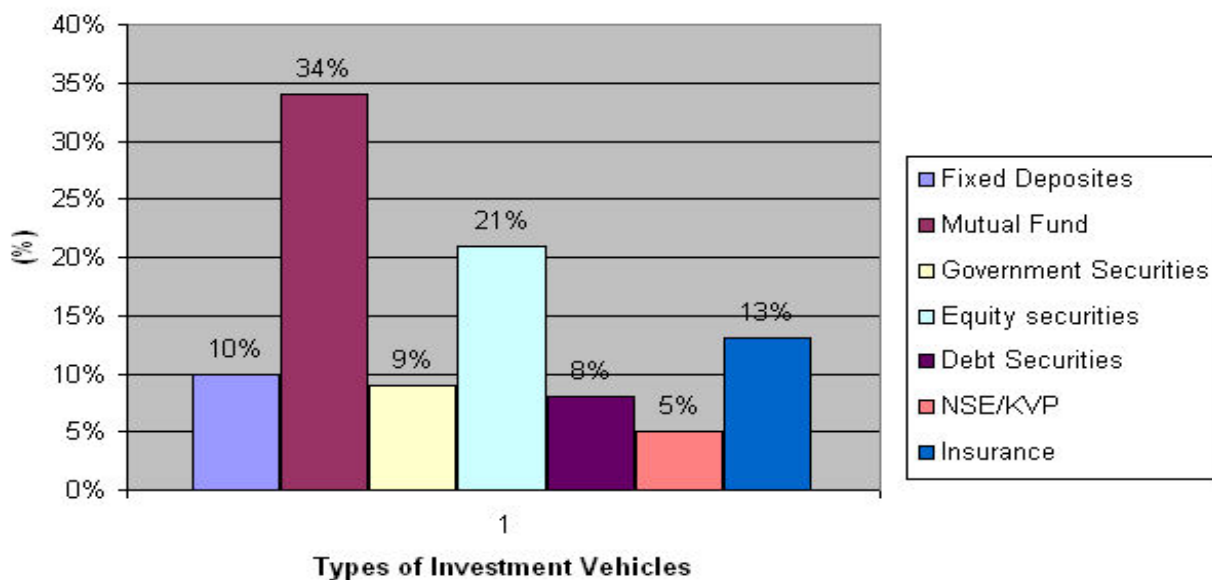
are existing. Here it could be very difficult to identify the total quantum of the mutual fund investors, therefore 100 investors were approach based on the convenience of the researcher on their living conditions.

(C) Data Collection

The primary data with the help of structured questionnaire were collected from the identified quantity of respondents from Anand – V V Nagar region. In general the primary data was collected from the both male and female investors themselves who are directly or indirectly involved into investment in mutual fund. The secondary source of information was collected from the websites, fact books, hand books, text books, various magazines, published article, investment companies’ brochures and research papers.

Analysis and Interpretation

(1) Various investment vehicles:



Graph-1: Available Investment Vehicles

(Source: Research work, Primary data)

From the above figure: 1 it is clear that 34% of respondent have already invested their money in mutual funds. The second best option for customer’s/investor’s point of view is equity securities, 21% investors have invested in equity securities class, where 13% & 10% investors are invested their funds in insurance and fixed deposits respectively. 9%, 8% & 5% investors invested their

financial resources in government securities, debt securities and NSE/KVP respectively which generates constant and secure return.

(2) Reasons for choosing the various investment vehicles:

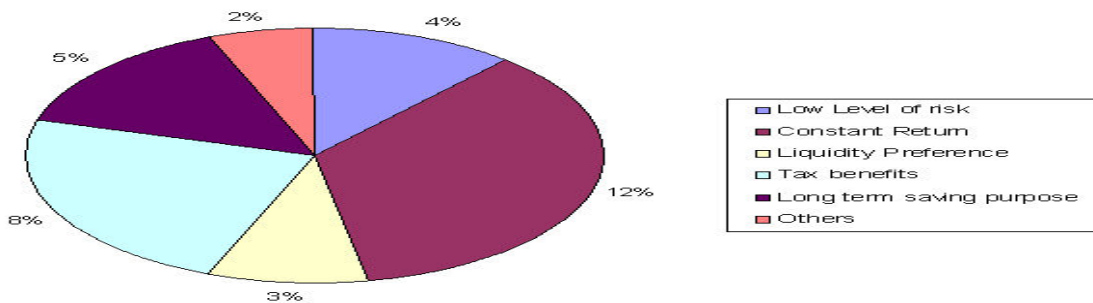
Table-1: Investment vehicles currently invested

Various Reasons for Investment	Mean Rank
Tax benefit	2.36
Higher & Constant Return	1.76
Liquidity Preference	5.01
Low Level of risk	4.67
Long term saving purpose	3.59
Other factors	4.88

(Source: Research work, Primary data)

It is clear from the above table: 1 that among 100 investors majority of the investors gave first rank to the higher & constant return. The reason for availed the tax benefit has got the second rank. Investors gave third position to the long term saving purpose. The reason of low level of risk secured fourth place where the reasons of other factors and liquidity preference has got fifth and sixth position respectively from the investors point of view.

(3) Perceptual reasons for selecting mutual fund:



Graph-2: Perceptual reasons for selecting mutual fund

(Source: Research work, Primary data)

The clear picture depict in the above pie chart: 2 related the mutual fund investors perceptual reasons. Out of 100 respondent 34% investors invested their money in mutual fund. From the 34% investors 12% respondents have stated that their reason for investment is to generate

constant return, 8% of investors quoted that tax benefit as the reason for the investment. 5%, 4%, 3% & 2% of investors have noted the reasons for investment are Long term saving purpose, Low Level of risk, Liquidity Preference, and others respectively.,

(4) Hypotheses:

H₀ : Tax benefits, constant return, liquidity preference, long term saving purpose, low level of risk have no significant relationship between ranking among the investors.

H₁ : Tax benefits, constant return, liquidity preference, long term saving purpose, low level of risk have significant relationship between ranking among the investors.

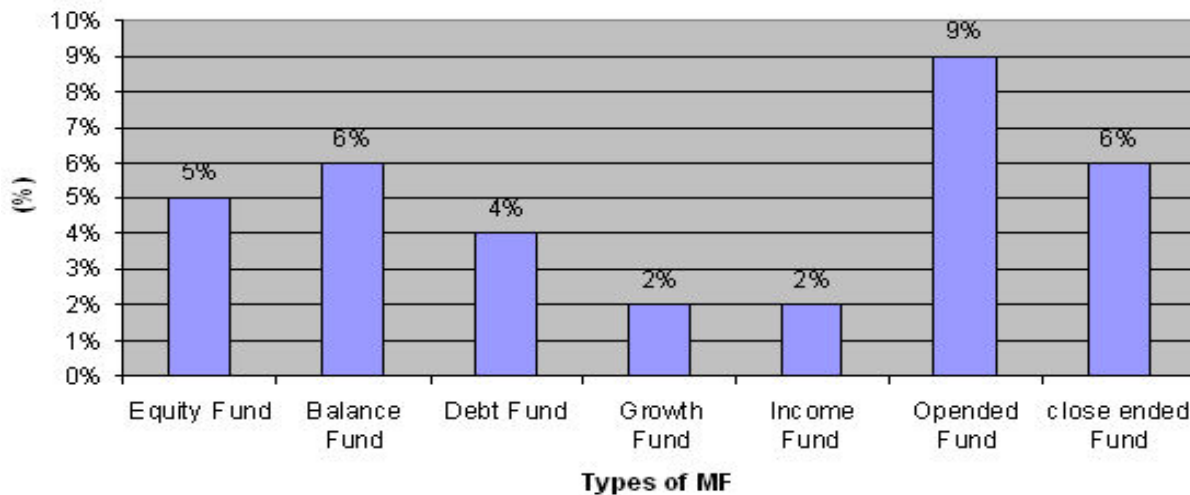
Table- 2: Chi Square Statistics

N	100 sample
Chi Square	253.832
DF	4
Asymp Sig.	0.000

(Source: Research work, Primary data)

From the above table 2 it is clearly depict that the significant value is less than the level of significant (0.05). Hence the null hypothesis (H₀) is rejected that means alternate hypothesis (H₁) is accepted, here tax benefits, constant return, liquidity preference, long term saving purpose, low level of risk have significant relationship between ranking among the investors.

(5) Preferred types of Mutual funds:



Graph-3: Preferred types of mutual funds

(Source: Research work, Primary data)

Out of the 100 investors, 34% investors have invested in mutual funds, among them 9% investors have invested in the open ended schemes, 6% of investors have gives equal preference towards balance funds and close ended fund schemes, 5% of investors have invested in equity fund schemes, 4% investors has preferred the debt fund schemes and last 2% of investors invested in either growth fund or income fund schemes, hence majority of investors first priority is open ended schemes.

(6) Factors that motivates in investment decision towards investors to invest in mutual funds:

Table-3: Motivating Factors in investment decision

Factors	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total Score	Mean Score	Rank
Constant Return	12	34	22	24	08	298	2.98	5
Return Batter than any other investment Avenues	11	39	21	18	11	312	3.12	4
Investment for shorter Duration	17	42	16	12	13	269	2.69	7
Diversification of Portfolio	22	41	13	15	09	358	3.58	1
Low Level of Risk	18	24	36	12	10	329	3.29	3
Higher Liquidity	19	45	10	13	13	342	3.42	2
Tax Advantage	21	40	17	10	12	276	2.76	6

(Source: Research work, Primary data)

It could be seen from the above table 3 that diversification of portfolio was the top most motivating factor for investors to invest their money in mutual fund. Higher liquidity was ranked the next factor that motivating to investors towards their investment decision. Low level of risk secured the third position among the overall factors that motivates the investment decision. Fourth position was secured by better return than any other investment avenues. In view of the sample investors the factor constant return has received fifth rank. Investor has pointed out investment for short duration and tax advantage as the least motivating factors respectively.

Findings and Recommendation

Most of investors have stated the lake of knowledge and availability of information as the primary reasons for not investing in mutual funds, only 34% investors has already invested their money in various mutual fund schemes. The second reason for not investing in mutual fund that it is very difficult to select the mutual fund scheme from the different of schemes.

Diversification of portfolio, higher liquidity and low level of risk were the top most factors that motivate investors to invest in mutual fund respectively.

Regarding the reason for investing majority of investors gave first rank to higher and constant returns. The reason for tax benefits got second rank from investor's point of view. Long term

saving has got third position to reason of investment. The reason of low level of risk secured fourth and other reasons have got fifth position.

The co-relation coefficient between external advisors of the investors and schemes of investment in mutual funds is very strong. Both variables are positively correlated the value of $R = (+) 0.891$ (Range +1 to -1), that means both are going in the same direction. It indicates that generally investors from Anand and v v nager are rely on the external source of information related to mutual fund schemes when they are investing their money in mutual funds.

From this study it was clear that majority of investors are in the age group of between 30 to 40 years. The majority of investors are male and they are belongs from the business group and salary holder group. Regarding to the educational qualification of the investors the majority of the investors at least reach at graduation level. From this present study it was clearly depict that most of the investors are working with private sector firms. Majority of the sample respondents were able to earn Rs. 15000 to 29999 and the income level does not affect the frequency of investment among the investors.

Recommendations

SEBI (Securities exchange board of India) and Mutual fund promoters will jointly conduct the awareness programme related to mutual fund investment as our study indicates that most of the investors suffering form lack of knowledge and availability of information

Investment banker or external advisors should update themselves with full knowledge about the newly launch investment schemes in the market and also delivered the proper and accurate information to the investors. Communication medium should be simplified and understandable to the investors so they can easily understand the benefits of mutual fund schemes.

Open a large number of customer care centre in the potential region like anand and v v nager so they can feel free from any obstacles relevant to the doubt about mutual fund schemes.

AMCs (Asset management companies) should continuously emphasis on the designing the suitable schemes to meet the investors requirements of constant return, tax benefit and long term saving.

Limitation of study

This present study was limited to anand and v v nager region due to time constrains. In anand and v v nager region a significant number of investors belongs from NRI categories and they are preferred to investing their money in real estates only.

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