

MUTUAL FUND INVESTOR'S BEHAVIOUR AND PERCEPTION IN INDORE CITY

Dr. Ravi Vyas,

Assistant Professor

Altius Institute of Universal Studies, Indore, M.P. India.

ABSTRACT

Now a day's financial markets are appeared as more efficient and significant to fight against inflation, mutual funds as a part of financial markets become popularized among investors because of their convenient nature and they also facilitates easy operations with good returns. Though they are not favored by many other investors as they are more depend upon volatile stock markets and struggling hard to differentiate product range to satisfy retail investor. It is thus, timed to understand and analyse investor's perception and expectations, and expose some too valuable information to defend financial decision making of mutual fund investor and asset management companies. Financial markets are becoming more extensive with wide-ranging financial products trying innovations in designing mutual funds portfolio but these changes need unification in correspondence with investor's expectations. Thus, it has become imperative to study mutual funds from a different angle, which is to focus on investor's perception and expectations and disclose the incognito parameters that are ascribed for their discontentment. This research paper focused attention on number of factors that highlights investors' perception about mutual funds. It was found that mutual funds were not that much known to investors, still investor rely upon bank and post office deposits, most of the investor used to invest in mutual fund for not more than 3 years and they used to quit from the fund which were not giving desired results. Equity option and SIP mode of investment were on top priority in investors' list. It was also found that maximum number of investors did not analyse risk in their investment and they were depend upon their broker and agent for this work.

Keywords: Investor behavior, Risk-return analysis, Investment preference, SIP, STP, Investor Education, investment psychology etc.

INTRODUCTION:

It is a general belief that Mutual Fund is a retail product which is so designed for those who do not directly invest in share market because of its unpredictable and volatile nature, but fascinated by the growth and returns given by the same market. After the announcement of 1991's liberalisation policy the growth of Indian economy is miraculous and per capita income has also increased. During last two decades growth of upper middle and middle class in India is also fabulous and this is the group who due to increase in income has enormous and changing needs, is targeted by all most all mutual fund companies but it is seen that this mutual fund companies are not succeed enough to turn savings individual investors in their products.

In India, a small investor generally prefers for bank deposits which do not provide hedge against inflation and often have negative real returns. He has a very limited knowledge of the sensitive index and again finds helpless to understand the information, if available from some expert, framed in technical and legal lexicon. He finds himself to be a deviant in the investment market. In such situation mutual funds acts as a supportive to these investors. Mutual funds are looked upon by individual investors as financial intermediaries/portfolio managers who process information, identify investment opportunities, formulate investment strategies, invest funds and monitor progress at a very low cost. Thus the success of mutual funds is essentially the result of the combined efforts of competent fund managers and alert investors.

The concept of Mutual funds has been on the financial landscape for long in a primitive form. The story of mutual fund industry in India started in 1963 with the formation of Unit Trust of India at the initiative of the Government of India and Reserve Bank. The launching of innovative schemes in India has been rather slow due to prevailing investment psychology and infrastructural inadequacies. Risk averse investors are interested in schemes with tolerable capital risk and return over bank deposit, which has restricted the launching of more risky products in the Indian Capital market. But this objective of the Mutual Fund industry has changed over the decades. For many years funds were more of a service than a product, the service being professional money management. In the last 15 years Mutual funds have evolved to be a product. A competent fund manager should analyse investor behaviour and understand their needs and expectations, to gear up the performance to meet investor requirements. It is the time for mutual fund companies to understand the fund selection/ switching behaviour of the investors' and to design the fund schemes according to the changing needs of consumer, otherwise survival of funds will be difficult in future. The present study made efforts in this regard to suggest ways to penetrate this mode of investment deep in Indian society it also provides the information that what present investor expects.

OBJECTIVES OF THE STUDY:

This research paper focused attention on number of factors that highlights investors' perception about mutual funds, these are to find,

1. To find Form of investment preferred by investor.
2. To find Preference of investor about different investment avenues.
3. To find Mode of investment preferred by investor.
4. To find investors' Knowledge of risk in investment and risk analysis.
5. To find investors' Preference over switching from fund and investment.
6. To find investors' Preference over nature of fund holding, and finally
7. To find investors' Preference upon time of holding of fund and preferred information mode for investing in mutual fund or scheme.

REVIEW OF LITERATURE:

Ippolito (1992) stats that investor is ready to invest in those fund or schemes which have resulted good rewards and most investors' is attracted by those funds or schemes that are performing better over the worst.

Goetzman (1997) opined that investor's psychology affects mutual fund selection for investment in and to withdraw from fund.

De Bondt and Thaler (1985) submitted that mean reversion in prices of stock is backed by investor's retrogression which is based upon investor's psychology to overvalue firm's resent performance in forming future expected results which is also known as endowment effect.

Gupta (1994) surveyed household investor for the objective to find investors' preferences to invest in mutual funds and other available financial assets. The findings of the study were more relevant, at that time, to the policy makers and mutual funds to design the financial products for the future.

Kulshreshta (1994) in his study suggested some guidelines to the investors' that can help them to select needed mutual fund schemes.

Shanmugham (2000) worked a survey of individual investors with the object to study on what information source does investor depends. The results explained that they are an economical, sociological and psychological factor which controls investment decisions.

Madhusudhan V Jambodekar (1996) conducted his study to size-up the direction of mutual funds in investors and to identify factors influence mutual fund investment decision. The study tells that open-ended scheme is most favored among other things that income schemes and open-ended schemes and income schemes are preferred over closed- ended and growth schemes. News papers are used as information source, safety of principal amount and investor services are priority points for investing in mutual funds.

Sujit Sikidar and Amrit Pal Singh (1996) conducted a survey to peep in to the behavioural aspects of the investors of the North-Eastern region in direction of equity and mutual fund investment. The survey resulted that because of tax benefits mutual funds are preferred by the salaried and self-employed individuals. UTI and SBI schemes were catch on in that region of the country over any other fund and the other fund had been proved archaic during the time of survey.

Syama Sunder (1998) conducted a survey with an objective to get an in-depth view into the operations of private sector mutual fund with special reference to Kothari Pioneer. The survey tells that knowledge about mutual fund concept was unsatisfactory during that time in small cities like Visakapatanam. It also suggested that agents can help to catalyse mutual fund culture, open-ended options are much popular than any other schemes, asset management company's brand is chief consideration to invest in mutual fund.

Anjan Chakarabarti and Harsh Rungta (2000) emphasised to the importance of brand in ascertaining competence of asset management companies.

Shankar (1996) suggested that for penetrating mutual fund culture deep in to society asset management companies must have to work and steer the consumer product distribution model.

Raja Rajan (1997) underlined segmentation of investors and mutual fund products to increase popularity of mutual funds.

THE SAMPLE SIZE:

The sample size consists of 363 respondents. The respondents are segregated on the basis of different variables such as income, age, occupation gender, marital status, family size, religion, academic qualification and annual saving.

THE TOOL OF DATA COLLECTION:

The basic design of survey instrument consists of structured questionnaires. It is so designed to collect all required information from investors of mutual funds. Based on their knowledge, information source and investment decision factors related to their selection of a particular scheme fund.

THE HYPOTHESIS :

- a) Most of the investors prefer to invest in mutual fund schemes as their saving basket because they are safe to invest in and a profitable mode among available investment avenues.
- b) Most of the investors prefer to choose short term investment in mutual fund for tax saving purposes and they rely upon information given by agents and brokers for investment in mutual funds.
- c) Most of the investors know about the risk factors in their mutual fund investment / scheme.
- d) Most of the investor switchover from existing fund / scheme to new fund / scheme with an object to gain more from changing market situation.
- e) Most of the investors prefer to invest in open-end option of mutual fund scheme.
- f) Maximum number of investors does not face loss in mutual fund investment hold by them from more than a year.

DATA SOURCE:

The source of data would be primary and secondary, primary data will be collected through questionnaire the secondary data will be collected from related research works, published books, journals, and reports of Securities and Exchange Board of India (SEBI), Association of Mutual Fund of India (AMFI), Reserve Bank of India (RBI) and other authorized sources of data.

RESEARCH APPROACH:

The research will mainly use survey approach.

TOOLS OF DATA ANALYSIS:

The data and information collected will be classified, tabulated and processed and its findings presented in a systematic manner. Statistical tools as Chi-square test, Pearson Correlation, mean and median are used.

RESULTS AND DISCUSSIONS:

Investment in Mutual fund- for this present research in all samples of 500 respondents is taken and it is found that 363 respondents are the investors in mutual fund remaining 137 are not investing in mutual funds. All the data collected is measured and interpreted on the factor of occupation of investor.

1) Form of investment preferred by investor-To study this respondents are asked to give rank to popular investment avenues like Life insurance schemes, Currency holding, PPF/GPF, Bank deposits and FD, Post office savings schemes, Gold, Units of UTI and mutual funds, investment in realty sector and investment in shares, debentures and commodities. Respondents are asked to give rank 1-9 (highest rank as 1 and lowest as 9) on that basis following table is prepared. Weighted average score is used as a statistical tool to find out the form of investment preferred by investor among various available investment avenues.

Table: 1 Form of investment preferred by investors

	Life Insurance Scheme	Currency Holding	PPF / GPF	Bank Deposit	Post Office Scheme	Gold	Units of UTI & Mutual Funds	Realty Sector	Shares, Debentures & Commodity
Valid	363	363	363	363	363	363	363	363	363
Mean	5.73	3.07	5.05	6.24	5.10	6.36	4.92	4.81	3.67
Rank	3	9	5	2	4	1	6	7	8

It is clear from the above table 1, that Gold is yet most likely investment avenue, bank deposits and Fixed Deposits are on 2nd number, Life insurance schemes on 3rd, Post office schemes on 4th, PPF/ GPF on 5th, Mutual funds, realty sector and shares debentures and commodity market on 6th, 7th and 8th number and currency holding on 9th number. It tells that preference of investor is to invest in safe mode first with high returns second. On studying rank given by investor for popular investment avenues it is revealed that investing in gold is most likely investment. Then come bank deposits and fixed deposits. Mutual fund comes on 6th number in investors' rank, it reflects that investor prefers primarily a safe destination for investment or we can say safe mode of investment and then the returns comes on second place for investor.

2) Preference of different investment avenues by investor-For this respondents were asked to give points based on 5 point likert scale (strongly unimportant.....strongly important giving 1.....5). Respondents were asked to prefer different investment windows on the basis of Safety, Liquidity, Reliability, Tax benefit and high return. Median values were taken in this regard to find clear result.

Table 2 Preference of different investment avenues by investor

	Gold	FDs'	Shares & Debentures	PO Schemes	MFs'	Life Insurance Policies	NSS Schemes	PF/GPF
Safety	4	4	1	5	3	4	5	5
Liquidity	5	4	4	3	3	2	1	2
Reliability	4	5	2	4	3	4	5	4
Tax benefits	1	2	3	5	4	4	5	4
High returns	4	3	5	1	4	2	2	2

It is clear from the above table 2, that except tax benefit gold is most preferred, mutual fund got average in almost all parameters and it also shows its consistent performance. It is found that mutual fund has got average in all parameters like safety, liquidity, reliability, tax benefits and high returns, amongst all popular investment avenues.

3) Mode of investment preferred- For locating the most preferable mode of investment among Lump sum, SIP and STP, frequency is taken including Chi-square test between the mode of investment with age of investor and occupation of investor.

Table 3: Mode of investment preferred by Investors

	Frequency	Percent	Cumulative Percent
Lump Sum Investment	211	58.1	58.1
Systematic Investment Plan	142	39.1	97.2
Systematic Transfer Plan	10	2.8	100.0
Total	363	100.0	

From above frequency table 3, it is clear that 58% investor select lump sum mode and only 2.8% preferred systematic Transfer plan and 39.1% choose Systematic Investment Plan.

Table 4: χ^2 test of mode of investment preferred (occupation-wise)

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	64.518	8	.000
Likelihood Ratio	48.752	8	.000
Linear-by-Linear Association	.512	1	.474
N of Valid Cases	363		

As per above table 4, it is clear that it is clear that $\chi^2(8, N=363) = 64.51$, $p = .05$, therefore there is significant relationship between occupation of investor and mode of investment.

It is found that a large number of investor prefers lump sum mode of investment to invest in mutual funds and second preference is given to systematic investment plan (SIP) mode of investment.

4) Knowledge of risk and return in mutual fund- To study this factor Chi-square test is done to know about whether investor thinks that mutual fund investment is safe mode to invest in share market than direct investment. Table given following tells the result.

Table 5: χ^2 test of MF: Safe medium of investment (occupation-wise)

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	13.749	4	.008
Likelihood Ratio	10.282	4	.036
Linear-by-Linear Association	2.720	1	.099
N of Valid Cases	363		

The table 5, gives result upon Chi-square test between occupation of investor and thinking of investor that whether mutual fund investment is safe mode to invest in share market than direct investment. Here $\chi^2(4, N=363) = 13.74$, $p = .05$ therefore there is significant relationship.

Now, see following table 6, which describes about the question asked to the respondents that whether they know about risk factors in their investment in mutual fund.

Table 6: Knowledge of risk factors in Mutual Fund Investment

	Frequency	Percent	Cumulative Percent
Yes	264	72.7	72.7
No	99	27.3	100.0
Total	363	100.0	

Concluding above table, 73% investors know about risk factors in their investment in mutual fund. It means investor is risk aware. And moving study ahead another question is asked to respondents that whether they analyse risk in their mutual fund investment and the result is shown in the table 7 below.

Table 7: Risk analysis in MF Investment by Investor

	Frequency	Percent	Cumulative Percent
Yes	194	53.4	53.4
No	169	46.6	100.0
Total	363	100.0	

Results are surprising that nearly 53% investors analyse the risk in their mutual fund investment though risk awareness percentage was 73%. It means most of the investor know about risk in investment but not have sufficient knowledge to analyse the risk in their mutual fund investment.

A question was asked to respondents that is mutual fund investment is safe mode to invest in share market, out of 363 respondents 351 confirms it as a safe mode. Frequency tally is used to show the results. See table 8, below

Table 8: MF: safe mode to invest in Share Market then direct Investment

	Frequency	Percent	Cumulative Percent
Yes	351	96.7	96.7
No	12	3.3	100.0
Total	363	100.0	

The above table shows that a huge number of investors think that mutual fund is a safe medium to invest in share market as compared to direct investment.

Another question was asked to investors in survey that whether they think that mutual fund investment is a profitable mode of investment. In return 293 (74.1%) investors answered in affirmative way while 94 (25.9%) in negative. See table 9

Table 9: Mutual Fund: profitable mode of investment

	Frequency	Percent	Cumulative Percent
Yes	269	74.1	74.1
No	94	25.9	100.0
Total	363	100.0	

5) Preference upon switching from mutual fund scheme- To know about the reasons which governs the switching mood of investor from a fund or scheme, a question was asked to respondents that, you switch over from the scheme/fund for? (a) Profitability or (b) Security. The results are shown hereunder with tables. Chi-square test is done for the above question with occupation of respondent.

Table 10: Reasons for switching investment

	Frequency	Percent	Cumulative Percent
Profitability	215	59.2	59.2
Security	148	40.8	100.0
Total	363	100.0	

The above table 10, tells that 59.2% investors switches from a fund/scheme with a view to earn profit from changing market situation and rest 40.8% switches for security of their money invested.

Another question was asked to respondents that, whether they are ready to invest in existing fund/ scheme or new fund/scheme to be launched in market. The following table 11 tells that 85.1% respondents go with existing fund/scheme and only 14.9% really on new fund/scheme.

Table 11: Investment and Fund preference

	Frequency	Percent	Cumulative Percent
Existing Fund	309	85.1	85.1
New Fund	54	14.9	100.0
Total	363	100.0	

A large number of investor switches from fund to gain more from changing market situations. on the other hand 85% investor prefer to invest in existing mutual fund schemes in market they feels that investment in newly launch funds or schemes may involves high risk.

6) Preference upon nature of fund holding- to know about the nature of fund holding behaviour of investor a question was asked about their present fund holding that, what is the nature of their fund whether it is (a) Equity fund, (b) Debt fund, (c) balanced fund, or (d) any other fund. χ^2 test between nature of fund and occupation of investor are shown hereunder.

Table 12: χ^2 test of Fund holding pattern (occupation-wise)

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	46.708	12	.000
Likelihood Ratio	65.519	12	.000
Linear-by-Linear Association	.989	1	.320
N of Valid Cases	363		

Above table 12, shows that there is significant relationship in fund holding pattern of investor and occupation, $\chi^2(12, N=363) = 46.70$, $p = 0.05$. Now the following is the table 13, shows frequency of fund holding pattern of investors.

Table 13: Nature of fund holding

	Frequency	Percent	Cumulative Percent
Equity Fund	175	48.2	48.2
Debt Fund	86	23.7	71.9
Balanced Fund	96	26.4	98.3
Others	6	1.7	100.0
Total	363	100.0	

The above table 13 tells that 48.2% investors have their investments in equity fund, 23.7% have in debt fund, 26.4% in balanced fund and only 1.7% in other types of funds.

The tests applied in the present study reveals that most of the investor prefers to invest in equity option in mutual funds Investors 'occupations and equity option of mutual fund investment shows significant relationship.

7) Preference upon information mode and time of holding of mutual fund investment- To know about the preferred information mode popular among investors and the time of hold of their present fund holding, two questions were asked to respondents. The first question which was asked to put a tick on preferable information mode among, (a) friends/relatives, (b) TV/radio, (c) mails, (d) newspapers/Magazines, (e) Brokers and agents, (f) self decision. Frequency tally table 14 for the above question is hereunder, describing that 38.6% investors took help of Brokers and agents and 28.4% investors invest in mutual funds as per the suggestions and information received from friends and relatives.

Table 14: Preference upon Information mode

	Frequency	Percent	Cumulative Percent
Friends & Relatives	103	28.4	28.4
TV/Radio	35	9.6	38.0
Mails	2	.6	38.6
News Papers & Magazines	39	10.7	49.3
Brokers & Agents	140	38.6	87.9
Self Decision	44	12.1	100.0
Total	363	100.0	

Second question was asked to investors regarding their present fund holding time period. Correlation is calculated for time holding and age and occupation of investor. And the results are,

Table 15: Correlation between Time of holding Investment and Occupation of Investor

		time of holding investment	occupation
time of holding investment	Pearson Correlation	1.000	.313
	Sig. (2-tailed)	---	.000
	N	363	363
occupation	Pearson Correlation	.313	1.000
	Sig. (2-tailed)	.000	---
	N	363	363

Above table 15, shows that there is significant relationship in time of fund holding pattern of investor and occupation, $r(363) = 0.147$, $p < 0.05$.

Table 16: Time of holding investments

	Frequency	Percent	Cumulative Percent
Less than 1 Year	50	13.8	13.8
1 – 3 Years	201	55.4	69.1
4 – 6 years	76	20.9	90.1
7 – 9 years	28	7.7	97.8
More than 10 Years	8	2.2	100.0
Total	363	100.0	

As the tests reveals that 69.1% investor prefer to hold the investment in mutual fund for one – three year period, 20.9% for four – six year period. So it can be concluded that about 90% investor hold their investment for not less than six years.

CONCLUSION AND SUGGESTIONS:

Mutual fund companies should come forward with full support for the investors in terms of advisory services, participation of investor in portfolio design, ensure full disclosure of related information to investor, proper consultancy should be given by mutual fund companies to the investors in understanding terms and conditions of different mutual fund schemes, such type of fund designing should be promoted that will ensure to satisfy needs of investors, mutual fund information should be published in investor friendly language and style, proper system to educate investors should be developed by mutual fund companies to analyse risk in investments made by them, etc. On the other it is required from government and regulatory bodies point of view that more laws should be there to secure the funds of investors to be exploited, more tax rebate should be given on mutual fund investment, proper and effective grievance system, right of investor education, and more control on asset management companies should be there.

There are some suggestions for better investing for investors that they should keep their investment for long time keeping in mind the level of risk involve and saving pattern, they should take help of private financial consultants' to have investment portfolio so as to reduce risk in investment, they should not invest in high volatile funds, they should collect all possible information before investment, periodical review should be done for investment and risk analysis should be done regularly and properly, maintain proper records for each transaction. A careful and reasonable diversification of investment in mutual fund should also be there on investor's part to balance the risk involved in investment. It is also suggested that investor should have a habit of regular saving to earn some more extra consistently through changing market scenario since small savings will grow into bigger capital base. One of the strong suggestions is that to invest a reasonable part of investment in to liquid security so that to meet any contingency.

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