

## Investors perception and behaviour towards mutual funds as an investment option

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### Abstract

Mutual fund industry has recorded a rapid growth in the past two decades. The concept of mutual fund is gaining more recognition and importance among the investors. A wide array of institutes contends to lure the investing public. To fulfill the expectations of investors, a proper evaluation and assessment of performance of mutual funds, their comparison with other funds, ability of the funds to diversify and to time the investment of mutual funds is of great practical importance for making investment decisions. Mutual funds provide a roadmap to the common investor so as to participate in the capital market with professional fund management irrespective of the amount of investment. Mutual fund as a part of financial markets is gaining popularity among investors because of their convenient nature, and they provide an opportunity to invest in a diversified, professionally managed portfolio with easy operations and good returns. Risk averse investors prefer to invest in mutual funds rather than investing in stock because they consider it a safer option because of the low risk associated with it. However, mutual funds are not favoured by many other investors because they are more dependent upon volatile stock markets and the product range to satisfy the retail investor is not clearly differentiated. Further the performance of mutual funds becomes complex while accommodating to risk and return measurement. Henceforth, studying mutual funds from a different perspective becomes imperative which is to focus on the perception and expectations of investors and disclosing the incognito parameters that attribute for the discontentment. This paper makes an attempt to highlight various factors affecting perception of investors regarding mutual funds.

**Keywords:** Investment, Investors perception, Investment preference, Mutual funds

### 1. Introduction

A mutual fund is a financial intermediary that acts as an investment vehicle, pools the savings of number of investors for collective investment in a diversified portfolio of securities like stocks, debentures, bonds etc. thereby enabling the investors to achieve their common financial goal. The income generated through these investments and the capital appreciation realized is shared by all the investors in proportion to the number of units that are being owned by them. The Securities and Exchange Board of India (Mutual funds) Regulations, 1996 defines a mutual fund as a fund established in the form of a trust to raise money through the sale of units to the public or a section of the public under one or more schemes for investing in securities, including money market instruments or gold or gold related instruments or real estate assets.

A mutual fund serves as a bridge between the investor and the securities market by assembling savings from the investors and investing them in the stock market to generate returns. It is a mechanism for mobilizing the resources of individual investors or retail investors and channelizing the same for productive ventures in an economy.

A mutual fund is a pure financial intermediary that performs the functions of buying and selling different types of securities on behalf of its investors or unit holders for some positive rate of return. Mutual funds are well diversified and professionally managed portfolio that offers good investment opportunities to the investors to invest in a basket of securities in the capital market at a relatively low cost. Investors of the mutual funds need not to worry about the return, because if the investment is undertaken properly, the

return will be in proportion with the risk which is assumed by the investor.

A mutual fund is a setup which is in the form of a trust, which has four key constituents; sponsor, trustee, assets management company (AMC) and custodian. The sponsor is a person who establishes and promotes mutual fund and appoints board of trustees. Trustee is usually a company (corporate body) or board of trustees (body of individuals) who safeguards the interests of unit holders and holds the property for the benefit of the unit holders. AMC is appointed by the Trustees who act as an investment manager of the mutual funds for making investment in various types of securities. The AMC is to be approved by SEBI to act as an asset management company. Custodian is an agency which is registered with SEBI, and it holds the securities of various schemes of mutual funds which are in its custody. These four key constituents are collectively responsible for the management of mutual funds.

### 2. Review of Literature

Ippolito (1992) <sup>[4]</sup> states that an investor is ready to invest in those fund or schemes which have resulted in good rewards and most investors 'are attracted by those funds or schemes that are performed better over the worst. Goetzmann (1997) <sup>[3]</sup> opined that investor's psychology affects mutual fund selection for investment and to withdraw from the fund.

Singh and Jha (2009) <sup>[6]</sup> conducted a study on awareness & acceptability of mutual funds and found that consumers basically prefer mutual fund due to return potential, liquidity and safety and they were not totally aware about the systematic investment plan. The invertors' will also consider

various factors before investing in mutual fund. Anand and Murugaiah (2004) [1] had studied various strategic issues related to the marketing of financial services. They found that recently this type of industry requires new strategies to survive and for operation. For surviving they have to adopt new marketing strategies and tactics that enable them to capture maximum opportunities with the lowest risks in order to enable them to survive and meet the competition from various market players globally.

Desigan *et al.* (2006) [2] conducted a study on women investors perception towards investment and found that women investors basically are indecisive in investing in mutual funds due to various reasons like lack of knowledge about the investment protection and their various investment procedures, market fluctuations, various risks associated with investment, assessment of investment and redressal of grievances regarding their various investment related problems. Savings is a habit specially embodied into women. Even in the past, when women mainly depended on their spouses' income, they used to save to meet emergencies as well as for future activities. In those days, women did not have any awareness about various investment outlets. But as time passed, the scenario has totally changed.

Ramamurthy and Reddy (2005) [5] conducted a study to analyze recent trends in the mutual fund industry and draw a conclusion that the main benefits for small investors' due to efficient management, diversification of investment, easy administration, nice return potential, liquidity, transparency, flexibility, affordability, wide range of choices and a proper regulation governed by SEBI. The study also analyzed about recent trends in mutual fund industry like various exit and entry policies of mutual fund companies, various schemes related to real estate, commodity, bullion and precious metals, entering of banking sector in mutual fund, buying and selling of mutual funds through online.

**3. Objectives of the study**

This research paper directed attention on certain factors that highlights the perception and behavior of investors about investment in Mutual funds, these are to find:

1. To study the investment pattern of investors.
2. To find out the preference of investors about different avenues of investment.
3. To find out the best sector for investment.
4. To ascertain investors preference upon time of holding the investments in Mutual fund.
5. To find out the type of plan preferred by the investor.
6. To find investors risk level associated with mutual funds.
7. To ascertain the factors that prevents the investors to invest in Mutual funds.

**4. Methodology of the study**

**4.1 The Sample Size**

The sample size consists of 300 respondents. The respondents are seperated on the basis of different variables such as age, occupation, income, annual savings and academic qualification.

**4.2 The Tool of Data Collection**

The basic design of survey instrument consisted of questionnaires and subsequent discussions with the respondents were also held to fill all the information gaps. It

is so designed to collect all the relevant and significant information from the investors of Mutual funds.

**4.3 Data Source**

The data for the present study is collected from primary as well as secondary sources. Primary data was obtained through questionnaires and through direct communication with the respondents in the form of interview. Secondary sources of data were taken from related research works, financial journals, published books, websites, articles, and reports of (AMFI), Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI).

**4.4 Research Approach**

This research work mainly used survey approach.

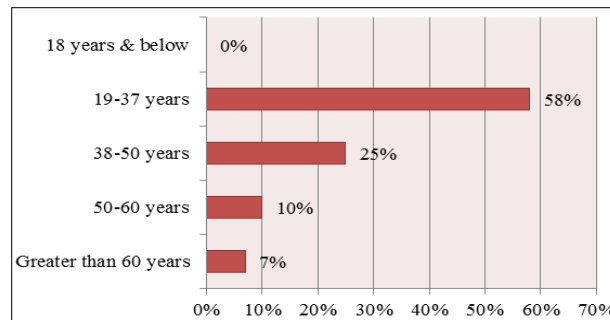
**4.5 Tools of Data Analysis**

The data and information collected is classified, tabulated and processed and all of its findings are presented in a systematic manner. To interpret the data statistical tools like bar graphs, pie charts, column charts, line graphs, area charts have been used.

**5. Results and Discussions**

The data collected through the questionnaires is analysed considering each relevant factor and the analysis is presented below:

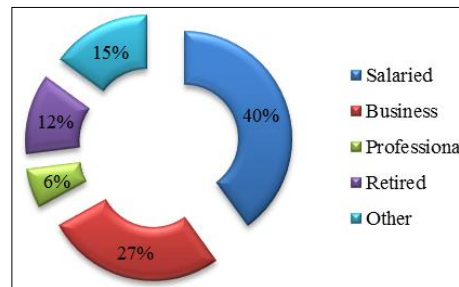
**i) Age profile of investors**



**Fig 1:** Age profile of investors

From the above graph it is clear that, most of the investors are under the age of 19-37 years, followed by investors which belong to the age group 38-50 years. 10% of investors fall under the age group of 50-60 years and only 7% of investors belong to the age group of 60 years and above. This shows that the interest in investing in mutual funds is more for people aged between age group of 19-37 years.

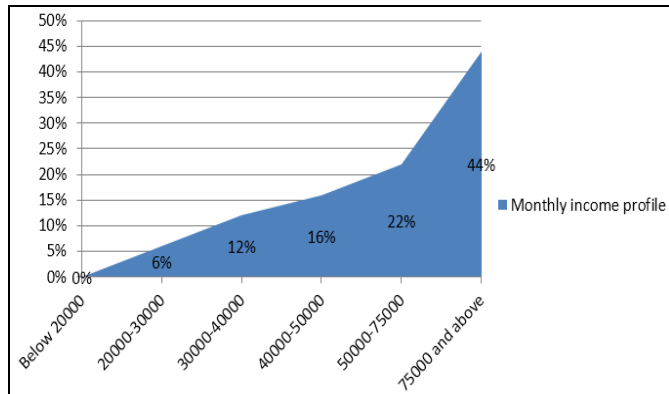
**ii) Occupation profile of Investors**



**Fig 2:** Occupation profile

Most of the investors belong to the salaried class which shows salaried class is more interested in investing in mutual fund followed by businessmen and others. 12% of the investors belong to retired class and 15% of investors belong to professional occupations. This show their interest for investing in mutual funds is less than other classes.

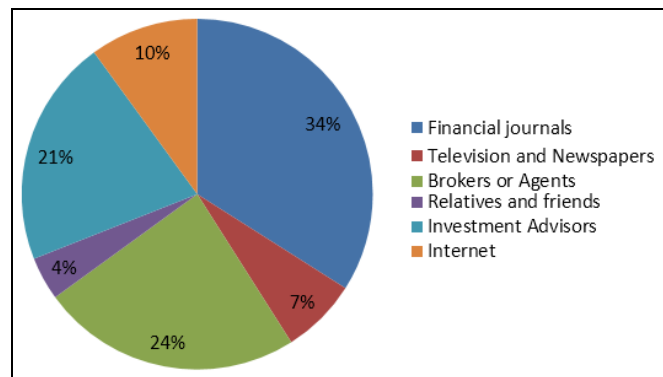
**iii) Income Profile of Investors**



**Fig 3:** Monthly income profile

The graph reveals that the income profile of the investors influences their choice. 44% of the investors belong to the monthly income profile of 75k and above which shows more interest in investing in mutual funds, followed by 22% of the investors which belong to the income group of 50k-75k, which shows they give moderate preference to these investments. 16% of the samples are within the income level of 40k-50k, 12% under 30k-40k, and only 6% within the income level of 20k-30k. This shows they give less preference for these investments. Therefore we can assume that the risk bearing capacity of investors is either low or moderate and return on investments is their top most priority.

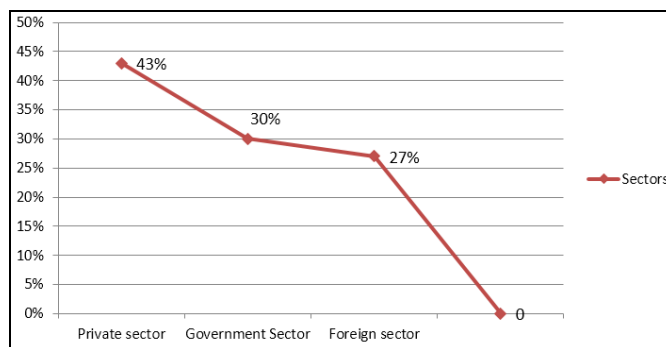
**iv) Sources that helps in making Investment decisions**



**Fig 4:** Sources of information

From the above data, most of the investing decisions are influenced by financial journals. 24% of the investors through brokers or agents, 21% through investment advisors, 10% through internet, 7% of investment decisions are influenced by advertisements on TV'S and newspapers and only 4% through relatives and friends.

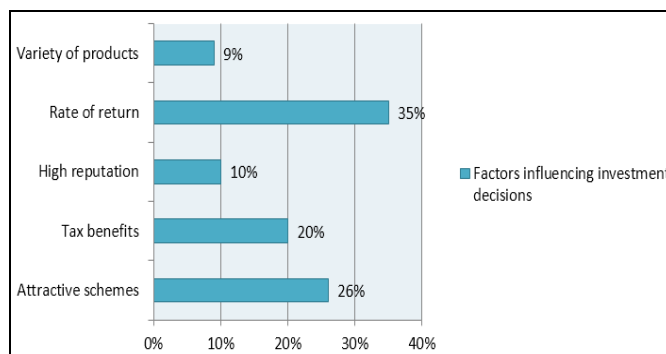
**v) Sectors preferred for investing Money**



**Fig 5:** Sectors preferred for investment

The above graph clearly indicates that 43% of investors likes to invest in private sector while 30% in government sector and 27% in foreign sectors.

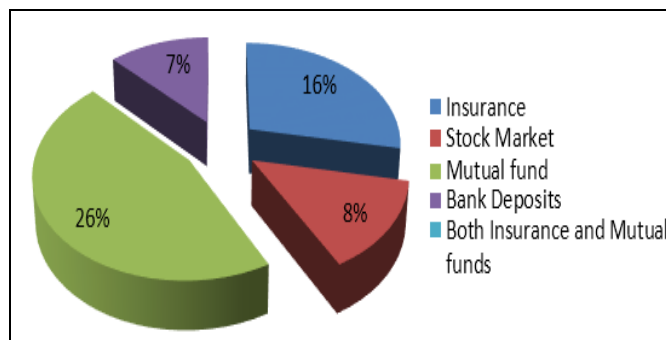
**vi) Factors that influence investment decision in a particular company**



**Fig 6:** Factors influencing investment decisions

From the above data, 35% of the investors get influenced by the rate of return, 26% by the attractive schemes, 20% by tax benefits, 10% by high reputation, and 9% by variety of products.

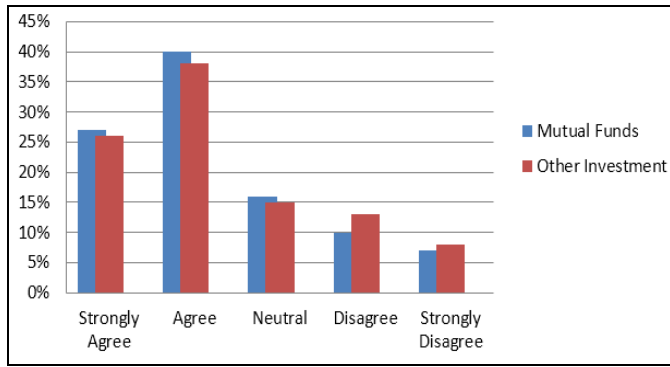
**vii) Investment Avenue preferred by the investor**



**Fig 7:** Preference choice %age

The graph indicates most of the investors like to make investment both in insurance and mutual funds. 26% of the investors generally like to make investments in mutual funds, followed by 16% in insurance. Only 7% of investors prefer direct investment in stock market and FD'S.

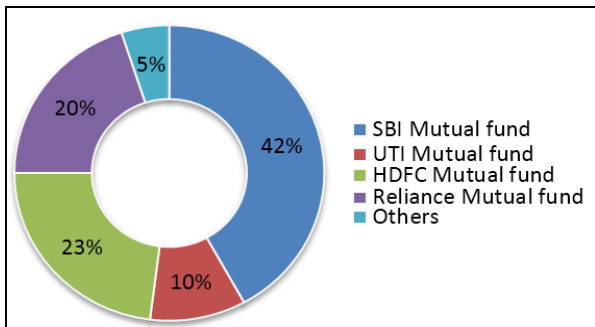
**viii) Investors would like to invest money in Mutual funds vis-à-vis other investments**



**Fig 8:** Investors prefer investments in mutual funds or other investments

From the sample, it was found that 27% strongly agree to invest in mutual funds whereas 26% in other investments. The percentage of investors who showed positive behavior (Agree) was 40% for mutual funds and 38% for the other investment which is almost same. There were only few investors who disagree and strongly disagree with the investment in the mutual fund and other investments and the percentage is 10% and 13%, 7% and 8%, respectively. The neutral response was given by 16% and 15% of the investors respectively.

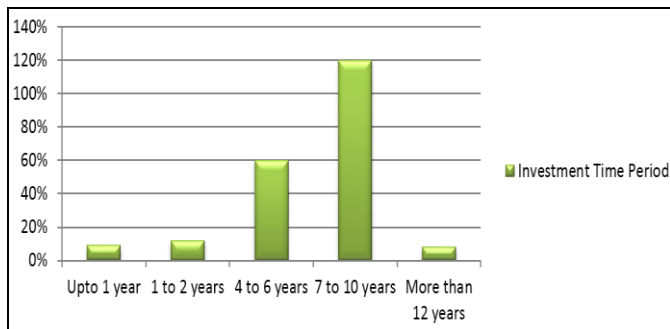
**ix) Investors perception among Mutual fund companies:**



**Fig 9:** Perception of investors among companies

As far as the investor perception is concerned, majority of the investors would like to invest in SBI Mutual fund, followed by 23% in HDFC Mutual fund. 20% of the investors go for Reliance Mutual fund, 10% for UTI Mutual Fund and 5% would prefer others.

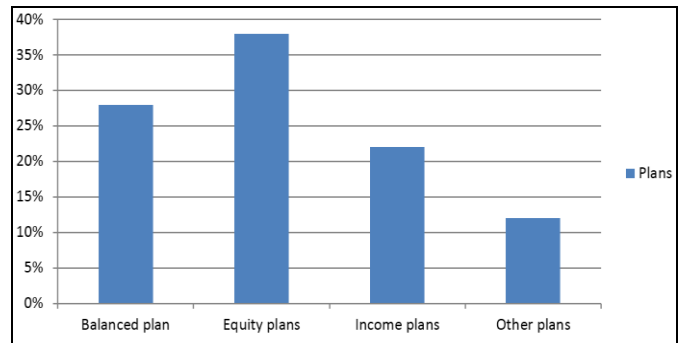
**x) Time of holding Investments**



**Fig 10:** Investment time period

As the graph reveals that 9% of the investors prefer to hold their investment in mutual funds for 1 year, 12 % for 1-2 years, 60% for 4-6 years, 11% for 7-10 years and 8% for more than 12 years. So it can be concluded that most of the investors hold their investment for not less than 6 years.

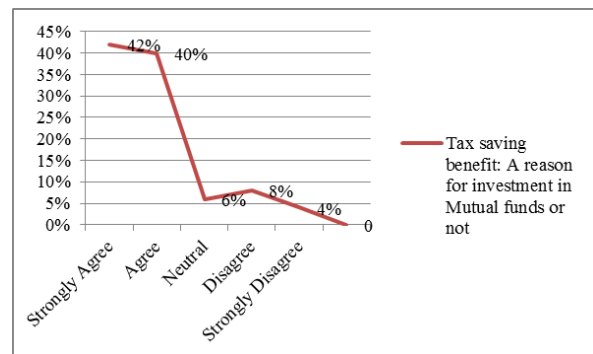
**xi) Mutual fund plans that are considered best by the investors**



**Fig 11:** Mutual fund plans

The above graph indicates that most of the investors Consider Equity plans to be best, followed by the 28% of investors who consider balanced plans to be best, 22% of respondents consider income plans to be best and 12% consider “other” plans to be best.

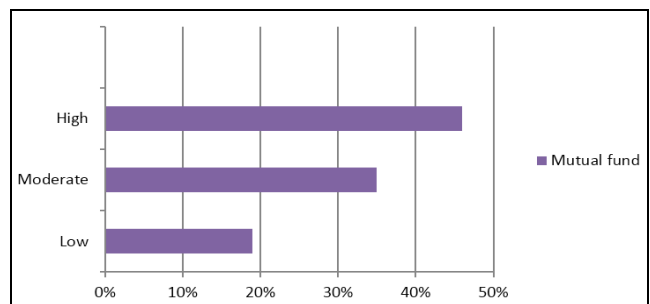
**xii) Is Tax saving benefit reason for investment in mutual funds or not**



**Fig 12:** Tax saving benefit: A reason for investment in Mutual funds or not

The above graph indicates that most of the respondents strongly agree that tax benefit is one of the major factor of mutual fund that allure the investors.

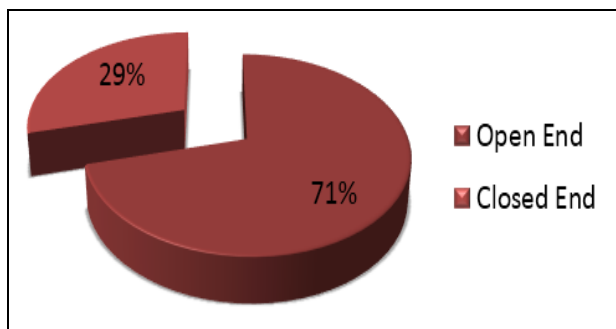
**xiii) How do investors rate the risk associated with Mutual fund**



**Fig 13:** Mutual fund risk

The finding reflects that 46% of the investors rate the risk associated with the mutual fund as high and 35% of investors rate moderate risk and 19% rate level of risk low.

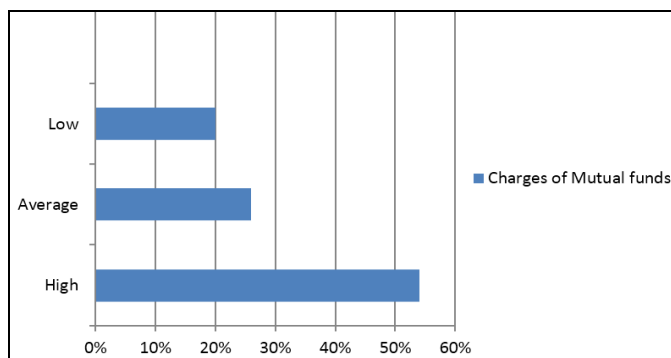
**xiv) Which end scheme is considered good?**



**Fig 14: End Scheme**

The above graph shows that 71% of investors consider open end mutual fund Schemes better followed by 29% of investors who find closed end Schemes better.

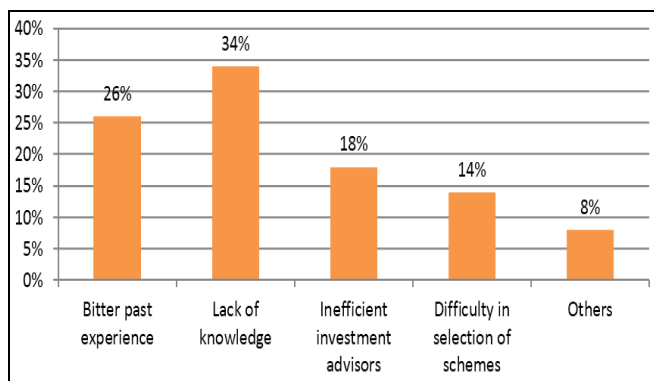
**xv) The overall charges of mutual funds are rated by the investors as**



**Fig 15: Charges of Mutual funds**

Concluding above table, 54% of investors rate Mutual Fund charges high, while as 26% of investors rate Mutual fund charges average and 20% of investors rate overall charges of Mutual fund as Low.

**vii) Factors which prevent investors from investing in Mutual fund**



**Fig 16: Factors preventing Investors from investing in Mutual Funds**

A large number of investors rate lack of knowledge as a decisive factor which prevents them from investing in mutual fund followed by investors who rate bitter past experience as a major factor preventing investors to invest in mutual funds.

**6. Findings of the study**

The present study reflects the following:

1. Most of the investors come from the salaried class.
2. Most of the investors prefer to invest their money in mutual fund.
3. Investors prefer to monitor their investment on monthly basis.
4. Return on equity Mutual fund schemes is more than the return on other Mutual fund schemes.
5. Investors consider Mutual fund plans as high risk products.
6. Most of the investors prefer to hold their investment for a period of 4-6 years

**7. Conclusion**

Now a day’s mutual funds as a part of financial markets have become more popularized among the investing public because of their convenient nature and because they facilitate easy operations with goods returns. Growth has been considered as the most significant objective while making investment in mutual funds.

Nowadays mutual funds as a part of financial markets have become more popularized among the investing public because of their convenient nature and because they facilitate easy operations with good returns. The main objective of investors is to earn higher returns while bearing in mind the factors of risk and liquidity. With this objective in mind, investors always look out for various avenues of investment. Growth has been considered as the most significant objective while making investment in mutual funds. Investors prefer to make investment in mutual funds rather than making direct investment in stock market because they want to avoid risk and always prefer growth over risk.

The mutual fund industry should bring innovative concepts such as dynamic funds, arbitrate funds, principal protected funds, high yield bond funds etc. The penetration of mutual funds can be increased through full disclosure of relevant information, advisory services, investor education, investor-oriented value added services, participation of investor in portfolio design, proper consultancy for understanding the terms and conditions of various mutual funds schemes and innovative distribution channels. A proper distribution network should be developed by the mutual fund companies in order to increase its reach and tap investments from all the investing segments.

In the current scenario of business, financial markets are becoming more extensive; therefore, investors should keep their investment for a long period of time while bearing in mind the level of risk involved and the pattern of savings. Investors should take help from private financial consultants to reduce risk in investment and investors should avoid investments in high volatile funds. They should try to collect all the possible relevant information before making any kind of investment. A proper risk analysis and periodical review should be done by the investors. Investors should maintain proper record for each and every transaction. Investors should maintain the habit of regular savings to earn more

consistently since small savings can grow into bigger capital base. Investors should also try to invest a reasonable part of their investment in to liquid security so as to meet out contingencies.

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