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A STUDY ON INVESTOR'S ATTITUDE TOWARDS MUTUAL FUND INVESTMENTS

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Abstract

A mutual fund is a common pool of money into which investors place their contributions that are to be invested in accordance with a stated objective. Being a part of financial markets although mutual funds industry is responding very fast by analyze investor's perception and expectations. This Mutual fund industry is playing an important role to provide an alternative avenue to the entire gamut of investors in a scientific and professional manner. Mutual funds have played a significant role in financial intermediation, the development of capital markets and the growth of the Indian Economy. Before making any investment investors tried to extract filtered information through their behavioral ability and process it accordingly to take investment decision which lead to systematic errors. It is noted that safe return on investment up to extent act as a key motivator of any individual for making investment which is the exchange of certain present value of money wealth (savings) into some tangible wealth (assets) in expectation of future reward and exclusively involves strategic decisions like, where to invest, when to invest and how to invest. Thus investors want to invest in those safe portfolios which give them the better future return in terms of interest or capital gain. Hence, the present study focuses on the investors' behavior towards Mutual Fund market and based on both primary and secondary data.

Keywords: Financial Intermediation, Financial Markets, Investment Decision, Money Wealth into Tangible Wealth, Pool of Money and Risk and Return.

INTRODUCTION

The mutual fund sectors are one of the fastest growing sectors in Indian Economy and have awesome potential for sustained future growth. Mutual funds make saving and investing simple, accessible, and affordable. The advantages of mutual funds include professional management, diversification, variety, liquidity, affordability, convenience, and ease of recordkeeping as well as strict government regulation and full disclosure. The Indian mutual fund industry has been no exception. Though it is relatively new, it has grown at a dynamic speed, influencing various sectors of the financial market and the national economy. The Indian economy is under transition on account of the ongoing structural adjustment programs and liberalization. Mutual Fund pools the money of people with certain investment goals. The money invested in various securities depending on the objectives of the mutual fund scheme and the profits (or loss) are shared among investors' in proportion to their investment. Investments in securities are spread across a wide cross-section of industries and sectors. Diversification reduces the risk because all stocks may not move in the same direction in the same proportion at the same time. Mutual fund issues units to the investors' in accordance with quantum of money invested by them. Investors' of mutual funds are known as unit holders. The profits or losses are shared by the investors' in proportion to their investment. The mutual funds normally come out with a number of schemes with different investment objectives which are launched from time to time. A mutual fund is required to be registered with Securities and Exchange Board of India (SEBI) which regulates securities markets before it can collect funds from the public.

OBJECTIVES OF THE STUDY

The present study aims with following objectives:

1. To know about Mutual Fund and its flow chart.
2. To have a comparison between investment in Bank and Mutual Fund.
3. To critically analyse the behavioural attitude of Mutual Fund investors.
4. To give valuable suggestions related with study.

REVIEWS OF RELATED LITERATURE

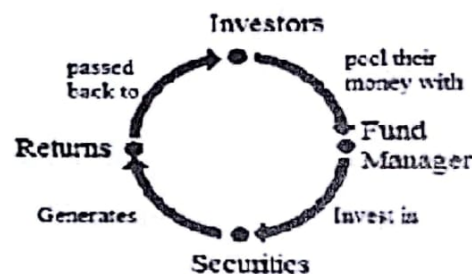
Brown & Goetzmann¹ (1997) emphasis on mutual fund styles. Mutual funds are typically grouped by their investment objectives or the 'style' of their managers. This approach is simple to apply, yet it captures nonlinear patterns of returns that result from virtually all active portfolio management styles. Classifications are superior to common industry classifications in predicting cross-sectional future performance, as well as past performance, and also outperform classifications based on risk measures and analogue portfolios. Interestingly, 'growth' funds typically break down into several categories that differ in

¹ Brown & Goetzmann (1997) *Mutual fund styles*. *Journal of Financial Economics*, Volume 43, Issue 3, March 1997, Pages 373-399.



composition and strategy. Cederburg (2008) reviewed on the mutual fund investor behavior across the business cycle. Mutual fund investor behavior changes across the business cycle. In economic expansions, investors strongly display the documented behaviors of chasing returns and searching for managerial skill. In contrast, recession investors do not chase returns and exhibit a weaker tendency to seek alpha. Even before controlling for momentum, no smart money effect exists in recessions. Singh² (2012) conducted an empirical study of Indian investors and observed that most of the respondents do not have much awareness about the various function of mutual funds and they are bit confused regarding investment in mutual funds. The study found that some demographic factors like gender, income and level of education have their significant impact over the attitude towards mutual funds. On the contrary age and occupation have not been found influencing the investor's attitude. The study noticed that return potential and liquidity have been perceived to be most lucrative benefits of investment in mutual funds and the same are followed by flexibility, transparency and affordability.

MUTUAL FUND OPERATION FLOW CHART



Mutual funds mobilize savings, particularly from the small and household sectors, for investment in capital and money market. Basically, these institutions professionally manage the funds of individuals and institutions that may not have such high degree of expertise and sufficient time to deal with the complexities of different investment avenues, legal provisions associated and impulse and vicissitude of financial markets.

Table 1: Comparison between investment in Bank and Mutual Fund

| Factors | Bank | Mutual Fund |
|-------------------------|-------------------------------------|-------------------|
| Returns | Low | Better |
| Administrative expenses | High | Low |
| Risk | Low | Moderate |
| Investment Options | Less | More |
| Network | High Penetration | Low but improving |
| Liquidity | At a cost | Better |
| Quality of Assets | Not transparent | Transparent |
| Guarantee | Maximum of Rs. 1,00,000 on deposits | none |

BEHAVIOURAL ANALYSIS OF THE STUDY

Table 2: Factor influencing for investment

| Factors | Conservative | Moderate | Aggressive | Total |
|--------------------|--------------|----------|------------|-------|
| Company Reputation | 20 | 18 | 1 | 39 |
| Liquidity | 12 | 17 | 5 | 34 |
| Low Risk | 3 | 3 | 4 | 10 |
| High Return | 10 | 7 | 3 | 20 |
| Safety | 5 | 5 | 2 | 12 |
| Return | 5 | 20 | 10 | 35 |
| Total | 55 | 70 | 25 | 150 |

Source: Primary data.

² Singh, B.K., (2012). "A study on investors' attitude towards mutual funds as an investment option", *International Journal of Research in Management*, Vol. 2, No. 2, pp. 61-70



Table 3: Types of Mutual Fund Selected by Respondents

| Types | No. of Respondents | Percentage | Cumulative Percentage |
|--------------|--------------------|------------|-----------------------|
| Debt Fund | 35 | 23.33 | 23.33 |
| Growth Fund | 30 | 20 | 43.33 |
| Tax Fund | 12 | 8 | 51.33 |
| Equity Fund | 18 | 12 | 63.33 |
| Income Fund | 26 | 17.33 | 80.66 |
| Index Fund | 29 | 19.34 | 100 |
| Total | 150 | 100 | |

Source: Primary data

Table 4: Purchase Purpose of Mutual Fund Investment

| Factors | No. of Respondents | Percentage | Cumulative Percentage |
|---------------------------------|--------------------|------------|-----------------------|
| As an investment to get returns | 37 | 24.67 | 24.67 |
| As tax saving scheme only | 35 | 23.33 | 48 |
| Both above factors | 78 | 52 | 100 |
| Total | 150 | 100 | |

Source: Primary data

Table 5: Type of Fund Mostly Respondents Prefer

| Types | No. of Respondents | Percentage | Cumulative Percentage |
|----------------|--------------------|------------|-----------------------|
| Open-end | 58 | 38.67 | 38.67 |
| Closed-end | 33 | 22 | 60.67 |
| Both the above | 59 | 39.33 | 100 |
| Total | 150 | 100 | |

Source: Primary data

Table 6: Major Characteristics of Mutual Fund influencing Respondents' Behaviour

| Characteristics | Weightage | Ranks |
|--|-----------|-------|
| Growth & Income | 1350 | I |
| Conservative Growth | 1125 | II |
| Current Income | 1100 | III |
| Aggressive Growth | 895 | IV |
| Preservation of Principal | 880 | V |
| Return from investment | 872 | VI |
| Safety of Investment | 792 | VII |
| Full disclosure of Information regarding scheme/fund | 763 | VIII |
| Capital appreciation | 768 | IX |
| Reputation of Sponsor | 742 | X |
| Sponsor's expertise in managing money | 716 | XI |
| Favourable credit rating of scheme/fund | 695 | XII |
| Liquidity of investment | 673 | XIII |
| Fringe Benefits | 657 | XIV |
| Regular updates on every trading day | 613 | XV |
| Promptness in service | 550 | XVI |
| Retaliation of Investors' grievances | 515 | XVII |
| Early bard incentives | 502 | XVIII |

Source: Primary data.



Table 7: Factors which influence to purchase Mutual Fund (Source: Primary data)

| Factors | Percentage | Cumulative Percentage |
|------------------------------------|------------|-----------------------|
| Risk Factor | 20 | 20 |
| Fund Manager | 32 | 52 |
| Past performance of related scheme | 20 | 72 |
| Awareness | 17 | 89 |
| Advertisement | 8 | 97 |
| Portfolio composition | 3 | 100 |
| Total | 100 | |

Table 8: Important variables while investing in Mutual Fund (Source: Primary data)

| Variables | Very Important | Somewhat Important | Somewhat Unimportant | Not at all important | Total | Rank (According to Higher Factor) |
|----------------------------|----------------|--------------------|----------------------|----------------------|-------|-----------------------------------|
| Fund Performance | 75 | 30 | 25 | 20 | 150 | 1 |
| Sectoral Fund | 23 | 49 | 53 | 25 | 150 | 6 |
| Fund asset size | 48 | 59 | 33 | 10 | 150 | 5 |
| Age of fund | 59 | 33 | 38 | 20 | 150 | 4 |
| Load criteria (entry/exit) | 72 | 40 | 28 | 10 | 150 | 2 |
| Minimum investment | 68 | 39 | 40 | 3 | 150 | 3 |

Table 9: Ranking of the category of funds consumer prefers to invest (Source: Primary data)

| Category | No. of Respondents | Percentage | Cumulative Percentage | Rank |
|------------------------|--------------------|------------|-----------------------|------|
| Gild Fund | 59 | 39.33 | 39.33 | 1 |
| Debt Fund | 31 | 20.67 | 60 | 2 |
| Monthly Income Plan | 20 | 13.33 | 73.33 | 3 |
| Equity Link Tax Saving | 12 | 8 | 81.33 | 4 |
| Balance Fund | 9 | 6 | 87.33 | 6 |
| Equity Fund | 11 | 7.33 | 94.66 | 5 |
| Others | 8 | 5.34 | 100 | 7 |
| Total | 150 | 100 | | |

It is a fact that Mutual Fund is a retail product designed with an objective to target small investors, salaried people and middle and lower income groups in order to mobilize their savings and providing them protective opportunities to multiply their wealth by acquiring property in the form of shares. But it has failed in providing safety, liquidity and returns on investment made by the small investor and are facing problem at every stage. To achieve this holistic objective many decisions are to be taken aggressively. The Indian Trusts Act, 1882 needed to be modified as it deny perpetual succession, on the other hand the Companies Act, 1956 permit perpetual succession but incapable in protecting the interest of the investor due to privilege of limited liability. For the betterment of Mutual Fund separate mutual fund act with transparent structure framework with common opportunity to all FM including UTI have to be implemented by the legal parent body. To promote the Mutual Fund, confidence of the investor is to be protected and boosted as most of the investor problems arise due to confused awareness, unethical practices of middleman, absence coordinated communication with poor after sales service to the investors by the funds promoters. The past track record of all the funds should be made readily available along with updated information. Compensation provision should be imposed heavily on all the fund promoters including agent and the distributor as they are largely concerned about their commission and incentives on selling schemes and ignore the investor requirement.

SUGGESTIONS

- 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.
- Provide complete information relating to mutual funds: Even among the investors who invest in mutual funds are unclear about how they function and how to manage them. So proper information must be provided to the investors in order to increase the loyalty among the investors.
- Better commission should be paid to Asset Management Companies: From the past 4-5 years the trust of investors on mutual funds is reduced because of the poor performance of mutual funds in these years. So if better commission is paid to Asset Management Companies which are highly knowledgeable and by motivating them we can improve the distribution system of mutual funds.
- Subsidized Investments to rural investors: Because of the issue of commercial viability, mutual funds were limited to major cities only. So if mutual funds are offered to rural and semi urban investors at subsidized rates like agricultural loans, the demand for mutual funds increases in rural and semi urban areas also.
- Advertising campaigns must be conducted in rural areas to increase awareness among rural investors.

CONCLUSION

Indian Mutual fund industry is gradually moving towards growing phase. Over the last few years level of awareness has increased. But level of awareness has not yet reached to mass investors. Mutual funds are good source of returns for majority of households and it is particularly useful for the people who are at the age of retirement. The economical growth architected under the ages of liberalization and globalization has created positive environment and explored the hidden desire of the investor and motivated them to participate in creating wealth through investing their surplus reserves in financial market. With increased income investors are looking for new avenues to earn more and also diversifying their portfolio for better protected return and mutual fund are available avenue for shedding the risk through diversification, managed by qualified fund managers. The mutual funds are protected option to get conservative growth of the principle and are easy to buy and sell; individual investor can buy them in open market directly from Fund Company or through third party. 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 analyze 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.

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