

A Study on Investors' Behavior towards Mutual Funds in Rohtak, Haryana

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ABSTRACT

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. 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. 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 analyze risk in their investment and they were depend upon their broker and agent for this work.

Keywords: Investor behavior, Risk-return analysis, Investment preference, Mutual Fund, Investor Education.

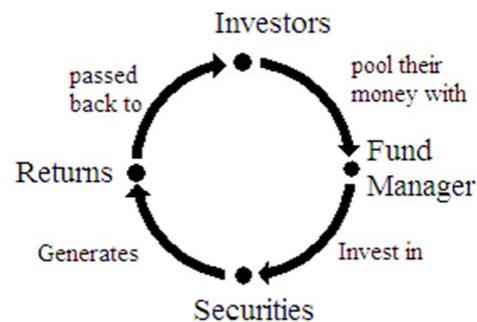
I. INTRODUCTION

Mutual funds are institutions that collect money from several sources - individuals or institutions by issuing 'units', invest them on their behalf with predetermined investment objectives and manage the same all for a fee. They invest the money across a range of financial instruments falling into two broad categories - equity and debt. Individual people and institutions no doubt, can and do invest in equity and debt instruments by themselves but this requires time and skill on both of which there are constraints. Mutual funds emerged as professional financial intermediaries bridging the time and skill

constraint. They have a team of skilled people who identify the right stocks and debt instruments and construct a portfolio that promises to deliver the best possible 'constrained' returns at the minimum possible cost. In effect, it involves outsourcing the management of money.

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.

II. MUTUAL FUND OPERATION FLOW CHART



III. COMPARISON BETWEEN INVESTMENT IN BANK AND MUTUAL FUND

V.

Factors	Bank	Mutual Fund
Returns	Low	Better
Administrative Exp.	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 Rs. 1,00,000 on deposits	None

IV. REVIEW OF LITERATURE

Singh and Jha (2009) 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 investors will also consider various factors before investing in mutual fund.

Desigan et al (2006) 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 redressed 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) 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.

Anand and Murugaiah (2004) 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.

V. OBJECTIVES OF THE STUDY

This research paper focused attention on number of factors that highlights investors' perception about mutual funds; these are to find, to find Form of investment preferred by investor.

- To find Preference of investor about different investment avenues.
- To find investors' Knowledge of risk in investment and risk analysis.
- To find investors' Preference over switching from fund and investment.
- To find investors' Preference over nature of fund holding, and finally
- To find investors' Preference upon time of holding of fund and preferred information mode for investing in mutual fund or scheme.

VI. THE SAMPLE SIZE

The sample size consists of 125 respondents from Rohtak. 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.

VII. THE TOOL OF DATA COLLECTION

The data is collected through 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.

VIII. 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) Maximum number of investors does not face loss in mutual fund investment hold by them from more than a year.

IX. 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.

X. 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, Frequency tally, mean and median are used.

XI. RESULTS AND DISCUSSION

The study shows that out of 150 respondents 125 respondents are the investors in mutual fund remaining 25 are not investing in mutual funds.

- 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, 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

Table 1: Form of investment preferred by investor

	Life Insurance Scheme	Currency Holding	PPF	BANK DEPOSIT	POST OFFICE SCHEME	GOLD	UNITS OF UTI & MUTUAL FUNDS	REALTY SECTOR	SHARE, DEBENTURES ETC.
VALID	125	125	125	125	125	125	125	125	125
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 Fix Deposits are on 2nd number, Life insurance schemes on 3rd, Post office schemes on 4th, PPF 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.

- 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	MF s'	Life Insurance Policies	NSS Schemes	PPF
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.

- Knowledge of risk and return in mutual fund-To study this factor the question was asked to the respondents whether they know about risk factors in their investment in mutual fund. The following table shows the results-

Table 3: Knowledge of risk factors in Mutual Fund Investment

	Frequency	Percent	Cumulative Percent
Yes	91	72.8	72.8
No	34	27.2	100
Total	125	100	

Concluding above table, 73% investors know about risk factors in their investment in mutual fund. It means investor is risk aware. The table-4 shows the result of the question - Whether Investors analyze risk in their mutual fund investment and the result is shown in the table 4 below.

Table 4: Risk analysis in MF Investment by Investor

	Frequency	Percent	Cumulative Percent
Yes	66	52.8	52.8
No	59	47.2	100
Total	125	100	

Results are surprising that nearly 53% investors analyze 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 analyze the risk in their mutual fund investment. A question was asked to respondents that are mutual fund investment is safe mode to invest in share market, out of 125 respondents 121 confirms it as a safe

mode. Frequency tally is used to show the results in table 5.

Table 5: MF: safe mode to invest in Share Market then direct Investment

	Frequency	Percent	Cumulative Percent
Yes	121	96.8	96.8
No	4	3.2	100
Total	125	100	

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 92 (73.6%) investors answered in affirmative way while 33 (26.4%) in negative. See table 6.

Table 6: Mutual Fund: profitable mode of investment

	Frequency	Percent	Cumulative Percent
Yes	92	73.6	73.6
No	33	26.4	100
Total	125	100	

4. 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 here under with table7-Chi-square test is done for the above question with occupation of respondent.

Table 7: Reasons for switching investment

	Frequency	Percent	Cumulative Percent
Profitability	74	59.2	59.2
Security	51	40.8	100
Total	125	100	

The above table 7, 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 8 tells that 85% respondents go with existing fund/scheme and only 15% relay on new fund/scheme.

Table 8: Investment and Fund preference

	Frequency	Percent	Cumulative Percent
Existing Fund	106	84.8	84.8
New Fund	19	15.2	100
Total	125	100	

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.

5. Preference upon nature of fund holding- to know about the nature of fund holding behavior 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. The table 9 shows the results as

Table 9: Nature of fund holding

	Frequency	Percent	Cumulative Percent
Equity Fund	60	48	48
Debt Fund	30	24	72
Balanced Fund	33	26.4	98.4
Others	2	1.6	100
Total	125	100	

The above table 9 tells that 48% investors have their investments in equity fund, 24% have in debt fund, 26.4% in balanced fund and only 1.6% in other types of funds. The tests applied in the present study reveal that most of the investor prefers to invest in equity option.

6. Preference upon information mode and time of holding of mutual fund investment-To know about the preferred information mode popular among investors, a question 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 10 for the above question is here under, describing that 30.4% investors took help of Brokers and agents and 25.6% investors invest in mutual funds as per the suggestions and information received from friends and relatives.

Table 10: Preference upon Information mode

	Frequency	Percent	Cumulative Percent
Friends & Relatives	32	25.6	25.6
TV/Radio	12	9.6	35.2
Mails	2	1.6	36.8
News paper & Magazines	14	11.2	48
Brokers & Agents	38	30.4	78.4
Self Decisions	27	21.6	100
Total	125	100	

Second question was asked to investors regarding their present fund holding time period & results are shown -

Table 11: Time of holding investments

	Frequency	Percent	Cumulative Percent
Less than 1 Year	18	14.4	14.4
1-3 Years	66	52.8	67.2
4-6 Years	25	20	87.2
7-9 Years	10	8	95.2
More Than 10 Years	6	4.8	100
Total	125	100	

As the tests reveals that 67.2% investor prefer to hold the investment in mutual fund for one – three year period, 20% for four – six year period. So it can be concluded that about 88% investor hold their investment for not less than six years.

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XII. 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.

XIII. CONCLUSION

Mutual funds are among the most preferred investment instruments. For middle income individuals, investing in mutual funds yields higher interest and comes with good principal amount at the end of the maturity period of the mutual fund investment. Another important fact is that mutual funds are safe, with close to zero risk, offering an optimized return on earnings and protecting the interest of investors. It is important to gain good understanding of mutual fund investments, companies in the field, and mutual fund experts, as customers are easily misguided by the advertisements and offers promoted by various financial institutions. 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.

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