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RESEARCH PAPER

Study on factors influencing the Indian mutual fund investors

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ABSTRACT

In today's volatile market environment, mutual funds are looked upon as a transparent and low cost investment vehicle, which attracts a fair share of investor attention helping spur the growth of the industry. The study is conducted to being out insights on awareness of investors towards mutual fund schemes and factors influencing the investors in selection of fund and realized returns. The study revealed that level of investment in mutual funds has no direct bearing on the rate of return, but level of risk taken by the investors has a direct bearing on the rate of returns and there is deviation between expected equity returns and actual equity returns obtained by the mutual fund investors. Based on the above approach, it can be noted that investors ought to be cautious in selecting the schemes, sectors and various asset management companies. Mutual fund industry which has enormous growth, if better controlled by market regulators with their strict regulations, the resources can be better allocated in an emerging market economy.

KEY WORDS : Mutual fund investors, Asset management companies, Mutual fund

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India is emerging as the next big investment destination, riding on a high savings and investment rate, as compared to other Asian economies. In today's volatile market environment, mutual funds are looked upon as a transparent and low cost investment vehicle, which attracts a fair share of investor attention helping spur the growth of the industry. The landscape of the financial sector in India is continuously evolving, accredited to regulatory changes being undertaken, which is leading market participants like the asset management companies (AMCs) and distributors to restructure their strategies and adopt business models which will yield sustainable benefits. The mutual fund industry being no exception, various measures are being taken by fund houses and distributors to spread access and reach to the semi-urban and rural segments. The advent of Mutual Funds changed the way the world invested their money. The start of Mutual Funds gave an opportunity to the common man to hope of high returns from their investments when compared to other traditional sources of investment. The mutual fund industry is spread all over the world with US alone accounting for over 50 per cent of it. The schemes offered all over the world are similar in their basic structure though they differ in numbers and with some countries having specialized schemes.

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Mutual funds in India:

Since the 1990's when the mutual fund space opened up to the private sector, the industry has traversed a long path, adapting itself continuously, to the changes that have come along. The Indian mutual fund industry is passing through a transformation. On one side it has seen a number of regulatory developments, while on the other the overall economy is just recovering from the global crisis of 2008. Growth in Assets under Management (AUM) experience has been unprecedented, growing at a CAGR of 28 per cent over the last four years, slowing down only over the last two years, as fallout of the global economic slowdown and financial crisis.

According to Association of Mutual Funds in India (AMFI), a body that is dedicated to develop mutual fund industry on professional, healthy and ethical lines in India, at present, there are 43 Asset Management Companies (AMCs) functioning in India, which comprises of 32 domestic and 11 foreign fund houses.

The Assets Under Management (AUM) of the Indian mutual fund industry as on March 31, 2011 (as per AMFI Monthly data) has witnessed a decrease of 3.54 per cent to Rs. 5,92,250 crores on a year on year basis, on account of substantial outflows from equity, liquid and income schemes. The total number of schemes under operation is 4051 with ICICI Prudential Mutual Fund at the top with 394 schemes and Motilal Oswal Mutual Fund at the lowest with two schemes.

Objectives of the study:

An attempt was made in the present study entitled "Analysis of Mutual Fund Investors" to understand the attitude, awareness and preferences of mutual fund investors, along with the factors influencing the investors in selection of fund and their preferences for various investment avenues. To be specific following are the main objectives of the present research study:

–Awareness of investors towards mutual fund schemes

–Factors influencing the investors in selection of fund and realized returns.

Given the above objectives, the major hypotheses of the study were as follows:

$H_{1:}$ Level of investment in mutual funds has a direct bearing on the rate of returns.

H_2: Level of risk taken by the investors has a direct bearing on the rate of returns.

H_3: There is no deviation between expected equity returns and actual equity returns obtained by the mutual fund investors.

METHODOLOGY

Hyderabad city of Andhra Pradesh, Bangalore city of Karnataka state and Chennai city of Tamil Nadu forms the study area. Considering the time and other resource constraints of the researcher, total sample size of the mutual fund investors was fixed as 90 *i.e.* 30 per each city. Personal interview method was employed for collecting the needed information. The most commonly used tools to analyze the mutual fund investors were Percentage analysis, Garrett ranking, Chi-square test and Paired't' test. They are explained below.

ANALYSIS AND DISCUSSION

The findings of the present study as well as relevant discussion have been presented under following heads :

Investor awareness to various mutual fund achemes:

Investors were asked about different mutual fund schemes they were aware of. The responses of the sample investors are given below.

From Table 1, it is clear that 20 per cent of investors knew about equity funds alone followed by equity and debt funds (18.75%), equity and balanced funds (15.00%), debt funds alone and equity, debt, balanced, liquid funds together (13.75%), balanced funds alone (8.75%), liquid funds (7.50%). Only 2.5 per cent of the respondents were aware of exchange traded funds. It could be inferred that majority of investors were aware of equity, debt and balanced funds rather than liquid and exchange traded funds. The reason for low awareness towards ETF's (Exchange Traded Funds) is, it is traded on stock market on a daily basis and most of the investors do not have much knowledge on stock markets.

Table 1: Respondents awareness towards mutual fund schemes

Sr. No.	Awareness level	Percentage to total
1.	Equity funds (only)	20.00
2.	Debt funds (only)	13.75
3.	Balanced funds (only)	8.75
4.	Liquid funds (only)	7.50
5.	All the above	13.75
6.	Equity and debt funds	18.75
7.	Equity and balanced funds	15.00
8.	Exchange traded funds (ETF's)	2.50

Factors influencing the investors in selection of fund:

Income level and returns of respondents:

It could be inferred that the calculated Chi-square value (6.221) was lesser than the table value (26.29). Thus, Chi-square test revealed that income level was not related to returns earned by the respondents. This is because; returns are subject to market risk and are not based on the higher income and level of investment, but mainly depend on the funds selected and market timing ability of the fund manager.

Above result did not provide statistical evidence to accept the hypothesis 1, "level of investment in mutual funds has a direct bearing on the rate of return".

Income level and tax saving of respondents:

It could be inferred that the calculated Chi-square value (8.051) was lesser than the table value (9.488). Thus, Chi-square test revealed that income level was not related to tax saving schemes preferred by the mutual fund investors. This is because may it institutional investors or retail investors; the main motive of the investment in the mutual funds is for better returns in comparison to the market index and other investment avenues. As per the above analysis, investors though choose tax saving schemes for their investment but it is least preferred objective.

Returns earned vs risk taken:

It could be inferred that the calculated Chi-square value (23.166) was greater than the table value (21.026). Hence, Chi-square test revealed that risk taken and returns earned by the respondents were related. Thus, higher the risk taken higher by the investors higher is the returns earned by them and vice versa. The concept can have repercussions at times, when there is volatility in market due to several internal and external factors.

Above result provided statistical evidence to accept the hypothesis 2, "Level of risk taken by the investors has a direct bearing on the rate of returns"

Factors influencing the decision making process in selection of fund:

The respondents were asked about various factors they considered while investing in mutual funds .They were also asked about factors they considered to assess the schemes in which they invested.

Reasons for investing in mutual funds:

The respondent's preferences for investing in mutual funds were analysed using Garrett ranking technique. The attributes with the highest mean value was considered as the most important one and the others followed in that order.

Among the factors which influenced the investors to make their investment in the mutual fund, management of mutual funds by professional managers was ranked first, followed by better returns, safety, lack of knowledge on stock market, liquidity and tax benefit and the least preference was given to diversification of risk.

Table 2: Reasons for investing in mutual funds

Sr. No.	Reasons	Garrett score	Rank
1.	Professional fund management by fund managers	88.67	I
2.	High returns	82.21	II
3.	Safety	76.45	III
4.	Lack of knowledge on stock market	69.34	IV
5.	Liquidity	58.45	V
6.	Tax benefit	51.16	VI
7.	Diversification of risk	45.57	VII

Measures to assess and track the mutual funds:

The respondents were asked about how regularly they assess and track the mutual funds in which they have invested and were also analysed using Garrett ranking technique.

From the table below respondents ranked Net Asset Value of mutual funds first to assess and track the mutual funds followed by past performance of the fund, total assets under management, other technicalities like Standard deviation, beta, sharpe, and treynor ratios and least preferred the portfolio nature of the fund. This is because they get updated information regarding Net Asset Value on a daily basis in all the concerned websites including the official website of AMFI

Table 3: Measures to assess and track the mutual funds

Sr. No	Reasons	Garrett score	Rank
1.	Net asset value (NAV)	89.15	I
2.	Past performance of fund	81.65	II
3.	Assets under management	76.38	III
4.	Other technicalities like standard deviation, beta, sharpe and treynor ratios	51.89	VI
5.	Portfolio nature	47.89	V

Realized returns:

Paired 't' test to compare expected equity returns vs actual equity returns:

It could be inferred that, calculated 't' value (9.54) was greater than table value (2.776). Thus, there is significant difference between number of investors who expected specific returns and number of investors who actually received those returns. Market volatility is one of the reasons for the deviation.

Above result did not provide statistical evidence to accept the hypothesis 3, "There is no deviation between expected equity returns and actual equity returns obtained by the mutual fund investors".

Paired 't' test to compare expected debt returns vs actual debt returns:

It could be inferred from the table that; calculated 't' value (5.05) was lesser than table value (12.70). Thus, there was no significant difference between expected returns and actual returns obtained by the investors. The reason behind was most of the investors had chosen debt monthly income plans, and floating rate funds that gave them better returns Investors investing in debt funds are risk averse investors and have low risk appetite.

Paired 't' test to compare expected and actual balanced fund returns:

It could be inferred that, calculated 't' value (5.47) was greater than table value (3.182). Thus, there was significant difference between expected returns and actual returns obtained by the investors. As certain portion of balanced fund was exposed to equity market the results were deviated due to market volatility.

Conclusion:

In this volatile market environment mutual funds play an active role not only in promoting a healthy capital market but also increase liquidity in the money market. They have been identified as one of the important factor pushing up the market prices of securities The study revealed that level of investment in mutual funds has no direct bearing on the rate of return, but level of risk taken by the investors has a direct bearing on the rate of returns, and There is deviation between expected equity returns and actual equity returns obtained by the mutual fund investors. Based on the above approach, it can be noted that investors ought to be cautious in selecting the schemes, sectors and various asset management companies. Mutual fund industry which has enormous growth, if better controlled by market regulators with their strict regulations, the resources can be better allocated in an emerging market economy.

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